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THE HANDBOOK SERIES

SERIES II VOLUME 4

SELECTED ARTICLES ON

INTERALLIED DEBTS
AND REVISION OF THE DEBT SETTLEMENTS

COMPILED BY
JAMES THAYER GEROULD
Librarian, Princeton University Library

and

LAURA SHEARER TURNBULL
Curator of the Strong Collection of Foreign Public Finance

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PREFACE

Public questions are of two sorts. A few perhaps are so clearly based on economic facts that they are capable of logical solution. Most, however, are so compounded of elements, economic, political and sentimental, that they cannot be determined rationally. Legislation related to them must take all of these factors into account. The "economic man" of the Manchester school could only have existed on Robinson Crusoe's island and only for so long as he was alone. As soon as the Man Friday appeared, he would have immediately been transformed into an ordinary human being, governed very largely by emotion and environmental prejudice. The sum of these emotions and prejudices, tempered somewhat by experience, we formulate into a system which we insist is rational and the product of a careful intellectual process. It is not necessary to question too closely the substance of this opinion, for it is in the last analysis a reality with which the legislator must deal. Something may be done to influence it both by governmental authority and by groups of like minded. This process we call propaganda.

While it is true that, at any given moment, emotion and prejudice exert a controlling influence, it must not be forgotten that their exercise, unrestrained by facts of the more stubborn sort, is quite certain to lead to highly unsatisfactory results. Some one is quite sure to get hurt. It is rather a good idea therefore to make as careful an attempt as we may to find out what are actually the facts underlying the question at issue and to study them from all possible angles.

There is no better illustration of the truth of this

generalization than is furnished by the present controversy over the settlement of the war loans. On neither side of the water do realities control. The representatives both of the debtors and creditors must shape their utterances by popular opinion; as, if they do not, others would be called to hold their offices, a prospect which they cannot but regard as most unfortunate.

Gradually, however, as the discussion goes on, each is willing to accept and to defend positions that, a short time before, were regarded as intolerable; and this process will doubtless continue until some sort of a working agreement is reached.

It is with the purpose of presenting a statement of the facts at issue and the major arguments on both sides that this Handbook has been prepared. The outline of argument presented in the Brief is amplified in the documents and articles reprinted.

To the writers of these articles and to the journals from which they have been reprinted, the compilers return grateful acknowledgement for their courtesy in allowing us to use them.

J. T. G.

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BRIEF

REVISION OF THE DEBT SETTLEMENTS

Opposing Revision

I. The debts were legally contracted.

   A. The law is explicit as to loan and repayment.

   B. France specially asked that the money should be considered as a loan rather than a gift.

   C. Subscribers to the Liberty Loan were told that that portion of the funds which was placed abroad would be repaid by foreign nations and not by American taxpayers.

II. A considerable portion of the foreign loans were spent on other than war expenses.

III. The whole fabric of world credit is based on the sanctity of loans.

IV. Should uncertainty of payment be admitted there would be little possibility of the negotiation of further loans.

V. Had it not been for wanton extravagance on the part of the European governments during the post-war period, the loans might easily be repaid.

VI. Due to the fall of the exchange value of the franc and other national units of value, the burden of internal debt has been reduced ap-

proximately 75 per cent, while earnings and prices have risen practically to the gold basis.

VII. We are in no sense to blame if, since the war, the financial management of the European countries has been inefficient.

VIII. American loans are not necessary, nor the creation of direct dollar credits, for these payments.

A. Much of the money from the loans goes into productive industries, and it is from the profits of these that the payments are made.

B. Triangular credits, *i.e.*, credits built up by the debtor countries through the sale of manufactured goods in other countries from which we purchase raw materials, enable them to transfer payments on their debts to us without straining their dollar exchange.

IX. We have already canceled a large share of the debts, in the case of France the entire prearmistice loan.

X. Since the settlements were reached, there has been no time to demonstrate what their effect actually is.

A. If it should develop that future payments cannot be met, a new negotiation can always be asked for.

B. It is not probable that the United States would suffer economic depression through the collection of debts.

XI. Any conference called to discuss the matter would disturb business and give rise to hopes which could not be fulfilled.

XII. Without our aid the Allies would have lost the war and would have been subject to penalties much heavier than their present debts.

XIII. Although our citizens doubtless did profit from allied purchases, made on our own credit, our government paid cash at exorbitant rates for its purchases in France, with resulting large profits to the French.

XIV. The amounts due to the United States will not be unduly burdensome as they are more than covered by the German reparation payments.

A. Payments also have been stretched over a period of sixty-two years, making them less burdensome.

XV. We refused to accept any of the spoils of war.

XVI. The territorial gains of the Allies offset, in large measure, the burden of the debt.

XVII. The selfish and revengeful policy of the Allies at the Peace Conference released us from any moral obligations, which might otherwise have existed, to cancel the debts.

XVIII. The national wealth of foreign countries will progressively increase, making it easier year by year to pay the sums required.

XIX. The amount spent each year by American tourists in France, is many times larger than the yearly payments now asked of France.

XX. If we remit the debts the money will be used in further preparation for war in Europe.

XXI. We cannot influence a nation's policy in the matter of armaments by scaling down its debt to us.

Favoring Revision

I. The debts were part of the contribution of the United States in the common cause, and should not be treated as commercial debts.

A. If we capitalize the American lives that were saved during the year before our troops took the field, the resulting sum would be far in excess of the debts.

B. The language of the debates in Congress when the loans were voted, indicates that the loans were not regarded as ordinary debts.

C. The French refused to sanction a gift of $1,000,000,000, to be raised by popular subscription, on advice from the United States Treasury, and with the promise of unlimited advances to be paid when convenient.

II. The loans to the Allies were almost entirely spent in this country, and our farmers and manufacturers reaped the benefit.

A. In advancing the money, we stipulated that the first $7,000,000,000 be spent here.

1. We received a direct return of $3,000,000,000 in the form of excess war profit taxes.

2. It helped reduce the surplus of commodities with which we were surfeited.

III. If the United States had fulfilled the pledges made by her representatives at the Peace Conference, the post-war financial collapse and reprisals in Europe would have been avoided.

IV. The loss of men in killed and wounded in Europe, has produced abnormal conditions there and hampered economical administration.

V. The Allies have accepted, in the Dawes settlement, an enormous reduction in German reparation payments, and have a right to demand corresponding sacrifices on our part.

VI. The Dawes payments do not offset the amounts due to us.

A. The payments themselves are uncertain.

B. Reparations no more than cover the damages caused by the war.

C. No account is taken of the immense internal debts which are a legacy of the war.

D. Our government has consistently refused to recognize the relation between reparations and debt payments and to incorporate a safeguarding clause in the settlements.

E. The rate of taxation in debtor countries is very heavy, far in excess of that in the United States.

VII. Mandates administered by the Allies are not a source of revenue but a liability.

VIII. Capacity to pay is a mechanical formula and ignores essential political considerations.

A. Austria, an ex-enemy power, is treated better than the Allies and granted a moratorium for twenty years.

B. No one can possibly be omniscient enough to know what will be the capacity to pay fifty years from now.

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DOCUMENTS

Excerpts from the First Liberty Bond Act and the Act of February 25, 1919[1]

First Liberty bond act, approved April 24, 1917:

LOANS TO FOREIGN GOVERNMENTS

Sec. 2. That for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued, bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under authority of this act; to enter into such arrangements as may be necessary or desirable for establishing such credits and for purchasing such obligations of foreign governments and for the subsequent payment thereof before maturity, but such arrangements shall provide that if any of the bonds of the United States issued and used for the purchase of such foreign obligations shall thereafter be converted into other bonds of the United States bearing a higher rate of interest than three and one-half per centum per annum under the provisions of section five of this act, then and in that event the obligations of such foreign governments held by the United States shall be, by such foreign governments, converted in like manner and extent into obligations bearing the same rate of interest as the bonds of the United States issued under the provisions of section five of this act. For the purposes of this section there is appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $3,000,000,000, or so much thereof as may be necessary:[2] Provided, That

[1] These Acts contain authority for acquiring obligations of foreign governments.

[2] Section 2 of the second Liberty Bond Act, as amended, made an appropriation of $7,000,000,000 for the purchase of such foreign obligations, and in addition the unexpended balance of the $3,000,000,000 herein authorized. See also sections 2 and 3 of second Liberty Bond Act and sections 7 and 8 of Victory Liberty Loan Act.

the authority granted by this section to the Secretary of the Treasury to purchase bonds from foreign governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government. . .

Act of February 25, 1919, Public No. 274, Sixty-fifth Congress:

An Act providing for the relief of such populations in Europe, and countries contiguous thereto, outside of Germany, German-Austria, Hungary, Bulgaria, and Turkey, as may be determined upon by the President as necessary.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That for the participation by the government of the United States in the furnishing of foodstuffs and other urgent supplies, and for the transportation, distribution, and administration thereof to such populations in Europe, and countries contiguous thereto, outside of Germany, German-Austria, Hungary, Bulgaria, and Turkey: *Provided, however,* That Armenians, Syrians, Greeks, and other Christian and Jewish populations of Asia Minor, now or formerly subjects of Turkey may be included within the populations to receive relief under this act, as may be determined upon by the President from time to time as necessary, and for each and every purpose connected therewith, in the discretion of the President, there is appropriated out of any money in the Treasury not otherwise appropriated, $100,000,000, which may be used as a revolving fund until June thirtieth, nineteen hundred and nineteen, and which shall be audited in the same manner as other expenditures of the government: *Provided,* That expenditures hereunder shall be reimbursed so far as possible by the governments or subdivisions thereof or the peoples to whom relief is furnished: *Provided further,* That a report of the receipts, expenditures and an itemized statement of such receipts and expenditures made under this appropriation shall be submitted to Congress not later than the first day of the next regular session: *And provided further,* That so far as said fund shall be expended for the purchase of wheat to be donated preference shall be given to grain grown in the United States.

Act of Congress Creating the World War Foreign Debt Commission

An Act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That a World War Foreign Debt Commission is hereby created consisting of five members, one of whom shall be the Secretary of the Treasury, who shall serve as chairman, and four of whom shall be appointed by the President, by and with the advice and consent of the Senate.

SEC. 2. That, subject to the approval of the President, the commission created by section 1 is hereby authorized to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now held by the United States of America, or any obligation of any foreign government hereafter received by the United States of America (including obligations held by the United States Grain Corporation, the War Department, the Navy Department, or the American Relief Administration), arising out of the World War, into bonds or other obligations of such foreign government in substitution for the bonds or other obligations of such government now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America: *Provided,* That nothing contained in this Act shall be construed to authorize or empower the commission to extend the time of maturity of any such bonds or other obligations due the United States of America by any foreign government beyond June 15, 1947, or to fix the rate of interest at less than 4¼ per centum per annum: *Provided further,* That when the bond or other obligation of any such government has been refunded or converted as herein provided, the authority of the commission over such a refunded or converted bond or other obligation shall cease.

SEC. 3. That this act shall not be construed to authorize the exchange of bonds or other obligations of any foreign government for those of any other foreign government, or cancellation of any part of such indebtedness except through payment thereof.

SEC. 4. That the authority granted by this Act shall cease and determine at the end of three years from the date of the passage of this Act.

SEC. 5. That the annual report of this commission shall be included in the Annual Report of the Secretary of the Treasury on the state of the finances, but said commission shall immediately transmit to the Congress copies of any refunding agreements entered into, with the approval of the President, by each foreign government, upon the completion of the authority granted under this Act.

Approved, February 9, 1922.

OFFICIAL CORRESPONDENCE ON THE CANCELLATION OF THE ALLIED DEBTS, 1917-1920 [3]

SUMMARY OF ACTIVITIES

There is set forth in the annual reports of the Secretary of the Treasury for the fiscal years ended June 30, 1922, 1923, 1924, and 1925, a complete report of the activities of the commission to November 15, 1925. The present report covers the period from November 15, 1925, to November 15, 1926.

At the time of the creation of the commission the United States held obligations of foreign governments, representing indebtedness incurred in connection with the World War or arising out of conditions resulting therefrom, aggregating in principal amount approximately $10,102,000,000. Debt-funding agreements have been concluded with Belgium, Czechoslovakia, Estonia, Finland, France, Great Britain, Hungary, Italy, Latvia,

[3] From *United States World War Foreign Debt Commission, Combined Annual Reports*, 1927. p. 58-74.

Lithuania, Poland, Rumania, and Yugoslavia. † These settlements represent $9,811,094,094.03, principal amount of the obligations held by the United States, or more than 97 per cent of the total principal amount of obligations held when the commission was created.

The World War Foreign Debt Commission was created by Congress February 9, 1922, for a period of three years, and in 1925 its life was extended for an additional two years. The existence of the World War Foreign Debt Commission terminates, therefore, on February 9, 1927. The commission has practically completed the work intrusted to it by Congress, and I do not now believe that its life need be extended. Greece has not funded its debt but has requested additional advances under credits heretofore established. In this case the commission has taken the position that it will not make such advances without specific authority from Congress, and the matter is now before that body. If the occasion should subsequently arise to undertake negotiations covering debts not yet funded, the matter might be handled informally by the Secretary of the Treasury with such former members of the debt commission as are in Washington and reported direct to Congress. . .

After the war the United States held large amounts of demand obligations of many nations in Europe. These notes of hand could not be paid according to their terms, and it became necessary for the United States to make adjustments so that definite settlements could be had. The debt commission was established by Congress and undertook the negotiation of funding agreements. The policy pursued was to treat each debtor nation on the basis of its particular capacity to pay the debt. The first element was time. It would have been preferable, of course, to have the matter out of the way within a generation, but to insist upon such a period, brief as nations go, would have been out of the ques-

† An agreement with Greece was signed December 5, 1927, after the Commission had dissolved.

tion. This very extention of time has been criticized as not an indulgence but a hardship to the debtor nation. No one likes to pay a creditor over a sixty-two year period. But if the whole debt cannot be paid on demand, no other course was open except to extend the period of repayment. This was done in the first settlement, that with England, and similar extensions have been granted to all other nations. The second problem was the amount to be paid in the earlier years. It is these years that are the most difficult, because postwar readjustments are still incomplete, and it is here that America has been most lenient. No debtor nation will deny that the payments provided for these earlier years are well within its capacity. The third question was the later years. No one can insure the future, but given normal conditions, it is believed a true balance has been held between the duty of the debt commission to the American taxpayer and fairness toward those nations to which was extended aid during and after the war. The debts have not been canceled, but the impossible has not been demanded. Since these settlements, England's excepted, have but recently been completed, the American debt has meant practically nothing to continental Europe in the eight years since the armistice, and it cannot become too heavy a load in the next few years. Thereafter, much depends upon the progress of the world. With peace and the development of trade internally and externally, these settlements are quite workable. The principal fact is that settlements have been made and a fair trial can be had, not on theory but in practice. The debtor nations know what should be provided in their budgets and uncertainty is eliminated.

From abroad has come again the suggestion that the indebtedness of the nations of Europe between themselves and with the United States should be canceled or should be pooled and a general joint settlement take place. There has been some repetition of this suggestion

in the United States, and my position on the question of debt cancellation appears in letters from me to Mr. Frederick W. Peabody, of July 14, 1926, and to President Hibben of Princeton University, of March 15, 1927. This suggestion has been presented in various forms, but upon analysis its essential basis seems to be a belief that the advances of the United States during the war were in the nature of subsidies and were, therefore, not loans at all, or that these advances were contributions to a joint undertaking and should be settled jointly by clearing one against the other. The position of the debt commission that the advances were loans to be repaid and that each debt must be funded on the basis of the capacity to pay of the particular debtor has been the consistent policy of the United States from the first. Until the war ended no intimation was made that these advances were subsidies, or that they were contributions to a joint cause, or that they would be the subject of a general pooling after the war.

Contemporaneous construction by the parties involved is the most conclusive evidence of the true meaning of their actions. In this connection the quotation following is interesting. On April 5, 1917 (war was declared April 6, 1917), our ambassador was instructed at the instance of the Secretary of the Treasury to learn from the French Minister of Finance the amount of loan or credit that would most assist the French Republic during the next six months. The ambassador immediately conferred with the French Premier, Ribot, who had been for several years previous Minister of Finance. Mr. Thierry was then Minister of Finance, but was out of Paris. Our ambassador had a conference with the Premier and wired the Secretary of State on April 11, 1917:

> The Premier personally expressed the hope to me that no resolution would be introduced or debated in Congress tending to make a gift to the government of France from the United

States however much the sentiment of good will prompting it might be appreciated by the French people. In view of France's action in the Franklin agreements in the years 1782 and 1783 in the time of our own distress, I hope I may be permitted to suggest that it would appear to be a generous and gracious thing should such an arrangement prove feasible in making the French loan at this time to stipulate that no interest shall be charged or be payable on such a loan during the war and thereafter for a limited number of years.

An article in *Le Matin* of June 28, 1926, purports to contain copies of cables between Ambassador Jusserand and the French Premier about the time when the first advances were being made. The following are translations of the dispatches:

April 12, 1917.

Diplomatie Paris:

I have just had an interview with the Secretary of the Treasury regarding our financial needs. The amount of $133,000,000 a month drew no observation from him; the amount of $218,000,000, which would be reached by adding our expenses outside the United States, appeared high to him, but it is not impossible that we shall get it.

As one of our allies has made some remarks on the necessity of equal treatment for all, under the pretext that the contrary would be humiliating, special favors for France are no longer spoken of, although it is possible that more will be heard of this later.

The rate of interest will be the same that the government of the United States will be able to obtain, probably 3½ per cent, with a guarantee that if subsequent loans are made at a higher rate, the same interest will be paid to the holders of the first loan.

This interest, by the terms of the law, shall be paid by all the allied countries concerned. As to the term for repayment, I mentioned (supposing this to be desirable) that of 15 years. Mr. McAdoo said that he had no objection to that.

(Signed) Jusserand

April 17, 1917.

I shall do my best in the matter of repayment in 25 years, but I cannot refrain from pointing out how much easier things would have been made for me if, instead of speaking, as was done, in the imprecise terms, in your telegram No. 536, of a term "as long as possible," the department had told me 25 years, since it had a settled idea on this subject.

I believed that I had good reason to suppose that 15 years would be considered satisfactory.

I cannot too urgently recommend the utmost possible precision in all these practical and urgent affairs with which I am now occupied.

(Signed) JUSSERAND.

PARIS, APRIL 19, 1917.

FRENCH AMBASSADOR, *Washington*:

The Minister of Finance insists that the term of amortization shall be 30 years, a normal and minimum term in such operations. While thoroughly understanding the difficulties indicated in your telegram No. 477, I transmit the pressing communication which I have received.

(Signed) RIBOT.

The foregoing shows that no idea of subsidy existed at the time the loans were made.

The principles upon which the American Treasury acted in determining the purposes for which war loans should be made are described in an article by former Secretary of the Treasury Rathbone in *Foreign Affairs* for April, 1925, as follows:

The financial requirements of each of the allied and associated governments fell into three classes—according as they arose at home, in allied or associated countries, or in neutral countries. In general, the view of the United States Treasury was that the first class could and should be met by the government concerned through taxation or domestic loans; that as regards the second class, each country (if necessary) should stand ready to provide or arrange finance for the requirements of its allies for expenditures within its borders; and that expenditures in neutral countries should, for reasons of finance, be reduced to a mimimum and should be met under some equitable arrangement by those countries able to provide the necessary finance in the required currency.

* * *

For its own war purposes in Great Britain, France, and Italy, the United States did not borrow pounds or francs or lire. Our Treasury was obliged to procure these currencies for the use of our Army abroad. We bought pounds, francs, and lire from the governments of Great Britain, France, and Italy, and made payment therefor in dollars here. The dollars thus obtained by Great Britain, France, and Italy were applied by them toward the cost of their war purchases here, and thus the amount of the dollar loans required by these coun-

tries from our Treasury was diminished in a corresponding sum. . .

The United States financed its own requirements in neutral countries. To some extent our loans to support sterling exchange (which are referred to hereafter) provided the means necessary to pay for British purchases in neutral countries, and to the extent they did not suffice Great Britain obtained for herself the neutral currencies she required. Direct aid was required however chiefly by France and Italy, to finance much of their necessary war purchases in neutral countries. It was evident that the United States or Great Britain or both would have to find much of the finance required by France and Italy in neutral countries. There was no particular principle under which all such finance should be furnished by one of those countries and none by the other; both the United States and Great Britain were financially able to assume and to carry the burden. Great Britain before we entered the war had supplied such neutral finance as France and Italy required and had not been able themselves to supply. Until we declared war on Germany the war had been the Allies' war, not ours, and our Treasury therefore could not accept the theory that, because before we entered the war Great Britain alone had furnished the assistance required by France and Italy for finance in neutral countries, it was our duty alone to furnish such assistance after we entered the war.

Various considerations had to be taken into account in determining how and to what extent the United States should aid in financing, in neutral countries, necessary requirements of France and Italy arising from the time we entered the war. Great Britain, as the great creditor nation, had available facilities for obtaining neutral finance which we, at that time a debtor nation, did not have. The apparent large balance of trade in favor of the United States, after there had been eliminated therefrom the United States exports paid for by the dollars which we had loaned the allied governments, became a heavy adverse balance against the United States, and this seriously handicapped the ability of the United States to furnish financial aid to allied governments in neutral countries. Through its pre-war commercial interests and its well-established war organizations, Great Britain was actually in a better position than we were in, or could put ourselves in, to handle the obtaining and utilizing of such neutral finance. Great Britain had capital interests in many neutral countries, and for years the ocean transportation of exports and imports of neutral countries had been largely carried on by British ships. Between April, 1917, and November, 1918, as compared with the currencies of Sweden, Norway, Denmark, Holland, Switzerland, Spain, India, Japan, the Argentine, Chile, Peru, and Bolivia, the dollar was at a discount and generally at a very heavy discount, and the pound was at an even heavier discount than the dollar. Consequently, purchases in these countries, if paid for in dollars or in pounds

at their exchange value, meant costs largely in excess of the high war prices as measured in terms of the currencies of these countries. If we alone were to finance these neutral requirements, it was as a practical matter impossible for us to delegate to Great Britain the control of the expenditure of our dollar loans for the neutral requirements of France and Italy for which they were unable themselves to provide. For the reasons elsewhere referred to, from the financial standpoint it was to our interest, and to the interest of Great Britain as well, that purchases which France and Italy could make in the United States or in Great Britain should be made there rather than in neutral countries. After we entered the war, in view of the considerations mentioned, Great Britain continued to furnish in the first instance most of the neutral finance required by France and Italy; but the United States Treasury, being prepared to bear its fair portion of the burden of securing finance for France and Italy in neutral countries, effected arrangements by which, after we entered the war, such purchases were ultimately in part financed by our dollar loans to France and Italy. The cost of the neutral finance so found after we entered the war was ultimately furnished, in the case of Italy, approximately one-half by the United States and one-half by Great Britain, and in the case of France something over one-half by the United States and the balance by Great Britain.

Having thus fixed its general policy as to which countries should be the lenders, the United States Treasury formulated its general policy as to the allied governments which should be the borrowers. This was, that our loans should be made to each allied government to meet the cost of commodities purchased here for its own use; that we would not loan to one government the dollars needed for purchases to be made by or on behalf of another government, and that neither the financial condition of the borrower nor questions of political expediency in our own country should be factors in determining the government to which our dollars should be loaned and whose obligation we would consequently take.

The question of a general joint adjustment of all debts arising out of the war did not arise until after the armistice. Its first appears to have been informally suggested by the British Chancellor of the Exchequer to Assistant Secretary of the Treasury Crosby, who was then in Europe, repudiated by him and apparently dropped for the time being.

On January 15, 1919, Mr. Edouard de Billy, French Deputy High Commissioner, wrote Secretary of the Treasury Glass as follows:

You are undoubtedly aware that several times lately I have had occasion to call the attention of Mr. Leffingwell and Mr. Rathbone to the question of definitely settling the status of the advances made up to the present by the United States Treasury against the demand obligations of the French government.

The procedure to be followed in this connection appears of such importance to my government that I deem it necessary, at the request of Mr. Klotz, to give you in writing the French government's point of view as already given verbally to Messrs. Leffingwell and Rathbone.

Although prepared to abide by your final decision, my government is desirous of submitting to your kind consideration the reasons for which it appears that the question of the reimbursement of the debts of the Allies can be satisfactorily settled only at a conference to be held in Paris during the peace negotiations.

The financial relations among the Allies, brought about by the war, are closely interwoven. The British and French governments have both borrowed from the United States; but France is also a debtor of England. The French and Italian governments have both borrowed from the United States; but Italy is also a debtor of France. Although a debtor of the United States and of Great Britain, France has loaned about 10,000,000,000 francs to its allies.

It appears to my government that, if the future adjustment of such mutual accounts is to be made the object of separate and distinct agreements, privileged situations might arise to the prejudice of some of the governments concerned. If, on the contrary, all questions of debit and credit were considered at the same time, and as a whole, it would be easier according to equity, to settle the respective situations of these governments.

On the other hand, it appears that the possibility of reimbursement by certain governments may be deeply affected by the conditions of the Treaty of Peace, especially by the indemnities to be received eventually from Germany and, in the case of some countries, as Serbia for instance, by the distribution of territory and the establishment of new boundary lines.

In short, the French government looks upon these questions as concerning all the Allies and demanding a general and simultaneous settlement, in which, at the same time, would be taken into consideration the respective positions of each of the interested governments toward the others, and the reaction which the peace conditions might have on the financial possibilities of these governments.

My government would consider it a favor to know the views of the Treasury on this most complex problem, especially as in the beginning my government had understood that its views corresponded to those expressed on various occasions by the representatives of the Treasury.

On January 29, 1919, Secretary of the Treasury Glass replied to Mr. de Billy's letter of January 15, 1919, as follows:

I have received your letter of the 15th instant, in which you set forth certain considerations in regard to the formulation of the scheme of repayments by your government of loans made to it by the United States.

I am entirely in accord with the view that the scheme should take into account the recoveries from the enemy which are likely to be affected by your government. I do not, however, feel that these considerations lead to the conclusion that discussion of the plans for repayment of debts due to the United States can advantageously be undertaken in Paris in conjunction with the Peace Conference. The conclusion I draw therefrom is rather that the United States should be willing to postpone discussions until the probable amount, time, and form of recoveries from the enemy can be estimated and the financial position of the receiving government considered in the light of this information.

I have heretofore stated to representatives of various of the allied governments, that, if they desire, I am quite ready to discuss with them the questions relating to any plan for the repayment of their obligations held by the United States. This I am prepared to do as I do not think the arrangements between the United States and the governments to which it has made advances can well be uniform or should necessarily be entered into simultaneously. On the other hand, I have no wish to press the immediate consideration and discussion of these questions upon any government.

I recognize that in case a country has borrowed of more than one of the governments associated in the war, it would be difficult to reach an equitable arrangement unless the arrangements which could be made by the borrowing country with the other associated governments which had lent it important amounts were taken into account, but I cannot see that any country is concerned in such arrangements other than the borrowing country and the particular countries which have made advances to it. I agree with you that where two or more of the associated governments have made loans to the same government, none should seek any unfair priority or advantage over others in terms of repayment, and I am confident that all the associated governments will be animated by this principle. I assume that consideration of the advances to Russia must for a time be postponed and the other cases, where both the United States and France made advances to the same government, are few in number, and only Great Britain, besides the United States, has made loans to France, and I do not anticipate that the treasuries of the respective countries will have any difficulty

in arriving at arrangements which will be equitable and free from discrimination.

After giving the views of your government as expressed in your letter careful consideration (the more so in view of the cordial expression of readiness to accept the conclusion of the United States Treasury upon the question), I feel that discussion of the scheme of repayment of debts due to the United States should take place in Washington as soon as possible after the financial terms of the peace settlement have been decided, or earlier in the case of any government which so desires. I should expect that whenever such discussions are initiated by any country that country will join with me in the desire that any other associated governments which shall have made loans to the country in question will be asked at the same time to discuss with the borrowing country the scheme for the repayment of the debt held by such other associated government, and that no final conclusion would be arrived at in respect to the obligations, acquired during the war, of any one of the associated governments without the previous knowledge of all the associated governments which have during that period made loans of an important amount to the government in question.

Mr. J. Simon, of the French High Commission at Washington, wrote Secretary Glass on February 5, 1919, as follows:

The attention of my government has been called to an article published recently in the Washington papers, according to which President Wilson is said to have been approached by French officials with a view of having the United States share the war expenditures of the Entente in the same proportion as if your government had entered into the war in August, 1914.

The Prime Minister of France has cabled me in order to deny most emphatically that such a suggestion has ever been made to President Wilson by any French official.

On March 8, 1919, Assistant Secretary of the Treasury Rathbone wrote to Mr. de Billy, Deputy French High Commissioner at Washington, as follows:

I learned that at a meeting of the Financial Drafting Committee appointed by the Executive Council of Ten of the Peace Conference one of the allied governments having proposed as one of the financial questions affecting peace, the reapportionment and consolidation of war debts, this proposal was strongly supported by the representatives of your government, Mr. Klotz taking the position that this question must be discussed while the delegates of all the powers are in Paris. While I understand that the drafting committee did not report this question

as one to be dealt with in the peace treaty, I understand that it did report to the Executive Council as a question which had been raised, "Interallied agreements as to the consolidation, reapportionment, and the reassumption of war debts."

I need not dwell on my surprise at the position taken by Mr. Klotz on behalf of your government, particularly in view of your letters of December 27, 1918, and February 5, 1919, as to which I testified before the Ways and Means Committee of the House of Representatives of the Congress at the recent hearing on the Victory Liberty Bond bill.

I have, however, to state most emphatically that the Treasury, which, as you are aware, is clothed by the Congress with full authority to deal with foreign loans which it has made, will not assent to any discussion at the peace conference, or elsewhere, of any plan or arrangement for the release, consolidation, or reapportionment of the obligations of foreign governments held by the United States.

You will appreciate also that the Treasury cannot contemplate continuance of advances to any allied government which is lending its support to any plan which would create uncertainty as to its due repayment of advances made to it by the United States Treasury.

I should be obliged if you would communicate to your government the views of the Treasury, as expressed above, and I shall be anxious to receive its reply.

Assistant Secretary Rathbone was advised by Mr. de Billy on March 10, 1919, that the contents of his letter had been transmitted to his government by cable.

On March 18, 1919, Mr. de Billy wrote Mr. Rathbone as follows:

By your letter of March 8 you informed me that at a meeting of the Financial Drafting Committee in Paris one of the allied governments having proposed, as one of the questions affecting peace, the reapportionment and consolidation of war debts, this proposal was strongly supported by the representatives of the French government.

You expressed your surprise at the position taken by Mr. Klotz, and you requested me to communicate to my government the views of the Treasury concerning this question.

I have just received an answer from Mr. Klotz by cable, the gist of which I give you below:

The proposition referred to was presented to the commission encharged by the executive committee with the study of the financial questions at a time when the rôle of this commission was reduced to the establishment of a list of the questions to be submitted to the executive committee, which had subsequently to decide which questions should be retained, and in such case, to whom their examination should be confided. The Italian delegation of the said commission having proposed that the question of the division among the allies of the total of the war expenses be in-

scribed on this list and a discussion having begun on this point, the French delegate asked that the Italian proposition be not discarded a priori.

The purpose of the commission was purely and simply to make a list of the questions which the representatives of the Powers now assembled in Paris might find it expedient to consider either in the general meetings or in meetings limited to the governments directly interested; the inscription of the Italian proposition on this list would not in any way preclude the decision of the executive committee.

Furthermore, Mr. Klotz points out that with reference to the attitude of the French officials toward the principle involved in this question, the French government never made any declaration favoring either the Italian proposition or any other similar proposition reproduced in the press or in the French chambers.

It is to be noted that Assistant Secretary Rathbone's letter of March 8, 1919, to Mr. de Billy, Deputy French High Commissioner, stated that the Treasury could not contemplate continuance of advances to any allied government lending its support to a plan which would create uncertainty as to its due repayment of advances made to it by the United States Treasury. Mr. de Billy in his reply of March 18, 1919, removed this uncertainty as to due repayment. The cash advances of the United States to France subsequent to March 18, 1919, aggregated $690,000,000, and in addition there was an indebtedness of $407,000,000 incurred by France to the United States in the purchase of war stocks, a total of approximately $1,100,000,000.

The correspondence then shifted to England. On November 8, 1919, Mr. Basil P. Blackett, British financial representative in Paris, wrote to Assistant Secretary of the Treasury Rathbone, also in Paris, as follows:

I have now had an opportunity of discussing with the Chancellor of Exchequer the question of the conversion of the demand obligations of the British and allied governments held by the United States Treasury into the form of long term bonds. The Chancellor of Exchequer desires me to say that, on the understanding that such conversion will not in any way prejudice the general question of interallied indebtedness, to the ultimate settlement of which along broad lines he attaches great importance, he is of opinion that a satisfactory solution of the particular question of conversion of demand obligations can quickly be reached along the general lines tentatively proposed in the memorandum which you gave me on Saturday, November 1st. As I stated to you in Paris, the Chancellor of Exchequer is prepared to give analagous treatment to the obligations

of allied governments held by the British Treasury. In this connection he desires me to express his entire concurrence in your view that their community of interests as the two chief creditors makes close cooperation between the British and American Treasuries of vital importance in these matters.

It is his strong hope that the two treasuries will work together with a view to finding the right solution for the important problems which have arisen and will arise in regard to questions of interallied indebtedness and German reparation.

* * *

On November 18, 1919, Assistant Secretary Rathbone replied, stating in part:

I note that the chancellor attaches great importance to the ultimate settlement along broad lines of the general question of interallied indebtedness. Just what is meant by that expression I do not know, but feel confident there is no such question now under discussion or consideration. The United States Treasury has in no wise changed the views it has expressed, or modified the position that it has taken in the past, and regards the several obligations of the various allied governments held by the government of the United States as representing the debt of each to the United States.

On February 4, 1920, Mr. Blackett wrote Mr. Rathbone and referred to the interallied debt problem, saying:

They have more than once suggested informally to representatives of the United States Treasury that steps should be taken by the two governments in concert to find some large solution of this problem, and as you are aware the Chancellor of the Exchequer expressed himself ready to take any steps towards relieving the governments which are debtors to the British government of the burden of their debts which the United States Treasury might feel able to propose in regard to the obligations of the governments which it holds. The suggestions have not hitherto been placed on formal record and it is for the purpose of formal record that they are mentioned here.

On February 9, 1920, the British Chargé d'affaires at Washington handed Assistant Secretary Leffingwell a message from the Chancellor of the Exchequer in which the following appeared:

. . . we should welcome a general cancellation of intergovernmental war debts. The moral effect would even be a greater practical change and fresh hope and confidence would spring up everywhere. The existence of these international debts deters neutrals from giving assistance, checks private credits, and will, I fear, prove a disturbing effect in future international relations.

On March 1, 1920, Secretary Houston sent the British Chargé d'affaires a reply for transmission to the chancellor:

* * *

As to the general cancellation of intergovernmental war debts suggested by you, you will, I am sure, desire that I present my views no less frankly than you have presented yours. Any proposal or movement of such character would, I am confident, serve no useful purpose. On the contrary it would, I fear, mislead the people of the debtor countries as to the justice and efficacy of such a plan and arouse hopes, the disappointment of which could only have a harmful effect. I feel certain that neither the American people nor our Congress whose action on such a question would be required is prepared to look with favor upon such a proposal.

Apparently there are those who have been laboring for some time under the delusion that the inevitable consequences of war can be avoided. As far back as January, a year ago, before it could possibly be foreseen whether any measures were necessary other than the adoption of sound economic policies, various schemes, including that of a cancellation of intergovernmental war debts, were launched. Of course I recognize that a general cancellation of such debts would be of advantage to Great Britain and that it probably would not involve any losses on her part. As there are no obligations of the United States government which would be canceled under such a plan, the effect would be that, in consideration of a cancellation by the United States government of obligations which it holds for advances made to the British government and the other allied governments, the British government would cancel its debts against France, Italy, Russia, and her other allies. Such a proposal does not involve mutual sacrifices on the part of the nations concerned. It simply involves a contribution mainly by the United States. The United States has shown its desire to assist Europe. Negotiations for funding the principal of the foreign obligations held by the United States Treasury, and for postponing or funding the interest accruing during the reconstruction period are in progress. Since the armistice this government has extended to foreign governments financial assistance to the extent of approximately four billions of dollars. What this government could do for the immediate relief of the debtor countries has been done. Their need now is for private credits. The indebtedness of the allied governments to each other and to the United States is not a present burden upon the debtor governments, since they are not paying interest or even, as far as I am aware, providing in their budgets or taxes for the payment of either principal or interest. At the present time the foreign obligations held by the government of the United States do not constitute a practical obstacle to obtaining credits here, and I do not think that the European countries would

obtain a dollar additional credit as a result of the cancellation of those obligations. The proposal does not touch matters out of which the present financial and economic difficulties of Europe chiefly grow. The relief from present ills, in so far as it can be obtained, is primarily within the control of the debtor governments and peoples themselves. Most of the debtor governments have not levied taxes sufficient to enable them to balance their budgets, nor have they taken any energetic and adequate measures to reduce their expenditures to meet their income. Too little progress has been made in disarmament. No appreciable progress has been made in deflating excessive issues of currency or in stabilizing the currencies at new levels, but in continental Europe there has been a constant increase in note issues. Private initiative has not been restored. Unnecessary and unwise economic barriers still exist. Instead of setting trade and commerce free by appropriate steps there appear to be concerted efforts to obtain from the most needy discriminatory advantages and exclusive concessions. There is not yet apparent any disposition on the part of Europe to make a prompt and reasonable definite settlement of the reparation claims against Germany or to adopt policies which will set Germany and Austria free to make their necessary contribution to the economic rehabilitation of Europe.

After taking all the measures within their power, one or more of the debtor governments may ultimately consider it necessary or advantageous to make some general settlement of their indebtedness. In such a case they would, I presume, propose to all creditors, domestic and foreign, a general composition which would take into account advantages obtained by such debtor country under the treaty of peace. How the American people or the American Congress would view participation in such a composition I cannot say. It is very clear to me, however, that a general cancellation of intergovernmental war debts irrespective of the positions of the separate debtor governments is of no present advantage or necessity. A general cancellation as suggested would, while retaining the domestic obligations intact, throw upon the people of this country the exclusive burden of meeting the interest and of ultimately extinguishing the principal of our loans to the allied governments. This Nation has neither sought nor received substantial benefits from the war. On the other hand, the Allies, although having suffered greatly in loss of lives and property, have, under the terms of the treaty of peace and otherwise, acquired very considerable accessions of territories, populations, economic and other advantages. It would, therefore, seem that if a full account were taken of these and of the whole situation there would be no desire nor reason to call upon the government of this country for further contributions.

On March 13, 1920, the British Chargé d'affaires at Washington transmitted to the Secretary of the Treasury

a message from the Chancellor of the Exchequer, from which the following appears:

I am much obliged for the full and interesting reply which you have been good enough to make to my message to Leffingwell.

I fully appreciate the attitude of the United States to any proposal for a mutual cancellation of international war indebtedness. I had no intention of renewing this proposal to which I referred only in order to respond fully to Leffingwell's request for my appreciation of the general situation of Europe as well as of this country.

On May 21, 1920, Austen Chamberlain wrote Assistant Secretary Rathbone at Paris as follows:

The cabinet has this morning given prolonged and careful consideration to the proposals which have been discussed between us for the treatment of British indebtedness to the American government and the parallel treatment by both the United States and Great Britain of the debts due to them by France, Italy, and other allied governments.

Since I had my last meeting with you the discussion between the Prime Ministers of France and Great Britain at Lympne have on the initiative of the French resulted in an agreement that in order to provide a solution for the economic difficulties which are gravely weighing upon the general situation of the world and in order to mark a definite beginning of the era of peace the settlement of the debts between them and the other European Allies should proceed on parallel lines with that of the reparation debts of the Central Empires.

The question of European indebtedness to America was not discussed at this conference at which no American representative was present, but before proceeding further with the consideration of detailed proposals for the treatment of the British debt to the United States government which as explained by you were intended to form the basis for similar arrangements between the United States and Great Britain on the one hand and the allied nations indebted to both of them on the other, we feel that their applicability to the general situation must be further explored and that it raises questions of great importance unsuited for departmental treatment between our two Treasuries. Discussions on the subject took place at an earlier stage between President Wilson and the Prime Minister and the Prime Minister proposes now to resume these discussions and will send a communication on this subject for the President's consideration.

On May 24, 1920, Assistant Secretary Rathbone replied:

In view of the communication which the Prime Minister is about to send to the President, I have referred your letter to the Secretary of the Treasury and shall not now attempt to discuss the matter you refer to beyond restating the view of the United States Treasury that the questions relating to the debt of the British government to the United States government must be settled by those two governments only, and that the indebtedness of other governments to the American government or to the British government and the payment by Germany of reparations, are in no way related to the postponement of interest upon and funding of the obligations of the British government held by the United States Treasury, nor to the other matters which were discussed during my month's stay in England for that purpose.

On June 26, 1920, Secretary Houston handed to Sir Auckland Geddes a memorandum, section II of which follows:

It has been at all times the view of the United States Treasury that questions regarding the indebtedness of the government of the United Kingdom of Great Britain and Ireland to the United States government and the funding of such indebtedness had no relation either to questions arising concerning the war loans of the United States and of the United Kingdom to other governments or to questions regarding the reparation payments of the Central Empires of Europe. These views were expressed to the representatives of the British Treasury constantly during the period when the United States government was making loans to the government of the United Kingdom and since that time in Washington, in Paris, and in London. The views of the President on the subject were stated at length to the Prime Minister in a letter dated May 5, 1919.

In a letter of July 23, 1920, to Mr. Celier, of the Ministry of Finance of France, Mr. Norman H. Davis, Undersecretary of State, wrote as follows:

I may say, however, that the vague reports to the effect that it had been decided that the various intergovernmental debts and the settlement thereof would be made to depend directly upon the settlement of collection from German reparations appeared to have a rather adverse reaction here.

It is felt here that the obligation on the part of debtor countries to liquidate war debts is a matter entirely independent of the reparation problem. The moneys were loaned before the question of reparations from Germany could be considered. It is of course realized that the ability to pay these war debts in full will in some cases depend upon the economic recovery of the debtor country, and that the amount received by way of

reparations will be one of the elements in such recovery. It is hard for the people of this country, however, to see the justification for any plan of assignment of German reparation obligations in payment of war debts, or the using of reparation payments as a controlling index of payments to be required on war loans, when these loans and reparation obligations have no connection and receipts from reparations have at best only an indirect and partial relation to the ability of the debtor nations to pay. It would be impossible for me to express a personal opinion on any contemplated settlement of the reparations problem without more specific information than is contained in your letter. If the Secretary of the Treasury were inclined to tie up the reparation question with intergovernmental indebtedness, which I believe is not the case, it would be impossible for him to do so without congressional approval, which, in my judgment, is out of the question. Under existing circumstances, I fear that any agitation along this line will simply be misleading and make it more difficult eventually for this country to participate and cooperate with other countries in the adjustment of existing economic problems.

On August 5, 1920, Mr. Lloyd George, Prime Minister of England, wrote President Wilson as follows:

I come now to the other question I wish to write to you about, and that is the knotty problem of interallied indebtedness. Indeed, I promised Mr. Rathbone long ago that I would write to you about it, but I have had to put it off for one reason and another till now. The British and French governments have been discussing during the last four months, the question of giving fixity and definiteness to Germany's reparation obligations. The British government has stood steadily by the view that it was vital that Germany's liabilities should be fixed at a figure which it was within the reasonable capacity of Germany to pay, and that this figure should be fixed without delay because the reconstruction of Central Europe could not begin nor could the Allies themselves raise money on the strength of Germany's obligation to pay them reparation until her liabilities have been exactly defined. After great difficulties with his own people, M. Millerand found himself able to accept this view, but he pointed out that it was impossible for France to agree to accept anything less than it was entitled to under the treaty unless its debts to its Allies and associates in the war were treated in the same way.

This declaration appeared to the British government eminently fair. But after careful consideration they came to the conclusion that it was impossible to remit any part of what was owed to them by France except as part and parcel of all round settlement of interallied indebtedness. I need not go into the reasons which lead to this conclusion which must be clear to you. But the principal reason was that British public opinion would never support a one-sided arrangement at its sole expense, and

that if such a one-sided arrangement were made it could not fail to estrange and eventually embitter the relations between the American and the British people with calamitous results to the future of the world. You will remember that Great Britain borrowed from the United States about half as much as its total loans to the Allies, and that after America's entry into the war, it lent to the Allies almost exactly the same amount as it borrowed from the United States of America. Accordingly the British government has informed the French government that it will agree to any equitable arrangement for the reduction or cancellation of interallied indebtedness, but that such an arrangement must be one that applies all round. As you know, the representatives of the Allies and of Germany are meeting at Geneva in a week or two to commence discussion on the subject of reparation.

I recognize that in the midst of a presidential election and with Congress not in session it is impossible for the United States to deal with this question in a practical manner, but the question is one of such importance to the future of Europe, and indeed to the relations between the allied and associated powers that I should very much welcome any advice which you might feel yourself able to give me as to the best method of securing that the whole problem could be considered and settled by the United States government in concert with its associates at the earliest possible moment that the political situation in America makes it possible.

There is one other point which I should like to add. When the British government decided that it could not deal with the question of the debts owed to it by its Allies except as part and parcel of an all-round arrangement of interallied debts, the Chancellor of the Exchequer told Mr. Rathbone that he could not proceed any further with the negotiations which they had been conducting together with regard to the postponement of the payment of interest on the funding of Great Britain's debts to America. I should like to make it plain that this is due to no reluctance on the part of Great Britain to fund its debt, but solely to the fact that it cannot bind itself by any arrangement which would prejudice the working of any interallied arrangement which may be reached in the future. If some method can be found for funding the British debt which does not prejudice the larger question, the British government would be glad to fall in with it.

On November 3, 1920, President Wilson, in replying to Mr. Lloyd George's letter of August 5, 1920, said in part as follows:

I turn now to the problem of interallied indebtedness which you raise. I must deal with this matter with great frankness, as I am sure you wish me to do. It is desirable that our position be clearly understood in order to avoid any further delay in a constructive settlement of reparations which may arise from

the hope that the debts to this government can form a part of such settlement. It will be helpful if first of all I indicate our legal situation.

The Secretary of the Treasury is authorized by United States law to arrange for the conversion of the demand obligations of the British government into obligations having a fixed date of maturity, in accordance with the agreement of the British government to make such exchange on demand contained in its existing obligations. In connection with such exchange, the Secretary of the Treasury has authority to arrange for the postponement of interest payments. No power has been given by the Congress to any one to exchange, remit, or cancel any part of the indebtedness of the allied governments to the United States represented by their respective demand obligations. It would require congressional authority to authorize any such dealing with the demand obligations and the Congress has the same authority to authorize any disposition of obligations of the British government held by the United States, whether represented by demand obligations or by obligations having a fixed date of maturity. It is highly improbable that either the Congress or popular opinion in this country will ever permit a cancellation of any part of the debt of the British government to the United States in order to induce the British government to remit, in whole or in part, the debt to Great Britain of France or any other of the allied governments, or that it would consent to a cancellation or reduction in the debts of any of the allied governments as an inducement towards a practical settlement of the reparation claims. As a matter of fact, such a settlement in our judgment would in itself increase the ultimate financial strength of the Allies.

You will recall that suggestions looking to the cancellation or exchange of the indebtedness of Great Britain to the United States were made to me when I was in Paris. Like suggestions were again made by the chancellor of the exchequer in the early part of the present year. The United States government by its duly authorized representatives has promptly and clearly stated its unwillingness to accept such suggestions each time they have been made and has pointed out in detail the considerations which caused its decision. The views of the United States government have not changed, and it is not prepared to consent to the remission of any part of the debt of Great Britain to the United States. Any arrangements the British government may make with regard to the debt owed to it by France or by the other allied governments should be made in the light of the position now and heretofore taken by the United States, and the United States, in making any arrangements with other allied governments regarding their indebtedness to the United States (and none are now contemplated beyond the funding of the indebtedness and the postponement of payment of interest), will do so with the understanding that any such arrangement would not affect the payment in due course of the debt owed the United States by Great Britain. It is felt that the funding of these

demand obligations of the British government will do more to strengthen the friendly relations between America and Great Britain than would any other course of dealing with the same.

The United States government entirely agrees with the British government that the fixing of Germany's reparation obligation is a cardinal necessity for the renewal of the economic life of Europe and would prove to be most helpful in the interests of peace throughout the world; however, it fails to perceive the logic in a suggestion in effect either that the United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the allied governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This government has endeavored heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of intergovernmental indebtedness.

The long delay which has occurred in the funding of the demand obligations is already embarrassing the Treasury, which will find itself compelled to begin to collect back and current interest if speedy progress is not made with the funding. Unless arrangements are completed for funding such loans, and in that connection for the deferring of interest, in the present state of opinion here there is likely to develop a dangerous misunderstanding. I believe it to be highly important that a British representative with proper authority proceed to Washington without delay to arrange to carry out the obligation of the British government to convert its demand obligations held by our Treasury into long-time obligations.

The United States government recognizes the importance, in the interests of peace and prosperity, of securing the restoration of financial and industrial stability throughout Europe. The war debts of the allied governments, the treaty obligations of Germany under the reparation clauses of the Treaty of Versailles and the annexes thereto, and of other enemy and ex-enemy countries under the treaties negotiated with them, the administration of countries under the mandates provided for by such treaties, and the existing arrangements between the governments of various countries have or may have an important bearing in making plans to accomplish such restoration. . .

Letter of Secretary Glass to Congressman Joseph W. Fordney

Carter Glass, Secretary of the Treasury, writing to Joseph W. Fordney, chairman of the Committee on Ways and Means, in a letter dated December 18, 1919, makes the following statement:[4]

[4] From *Treasury Report*, 1920. p. 60-1.

. . . If the Treasury does not defer the collection of interest and thus adds to the present difficulties in the financial and economic rehabilitation of the world by demanding an immediate cash payment of interest before the industry and trade of Europe has an opportunity to revive, we should not only make it impossible for Europe to continue needed purchases here and decrease their ultimate capacity to pay their debt to us, but should hinder rather than help the reconstruction which the world should hasten. A nation can liquidate its foreign debts only by the accumulation of foreign credits, which may be accomplished through an excess trade balance, invisible exchange items, the creation of credits by loans, or by the export of gold. Until our associates in the war, whose manufacture and trade suffered so much more than ours, have had an opportunity to resume normal industrial and commercial activities, they have not the exports with which to pay the interest due on our obligations and could make such payment only by the shipment of gold or by obtaining dollar loans in the United States. The loans which the allied governments have so far been able to place in our markets have not been sufficient to correct the situation. I cannot believe that anyone would consider it equitable or wise, in the present circumstances, for us to require payment in gold, of which we already have enough, when the payment of one year's interest alone would exhaust about 50 per cent of the gold reserves of our debtors. While I fully realize the desirability of collecting this interest and of decreasing at once by a corresponding amount the taxes which we must collect, I should be most reluctant, without specific instructions from Congress to the contrary, to demand the immediate payment of interest which would not only seriously retard the economic restoration of those countries without which they will be unable to pay the interest and principal of their debt to us, but which would also destroy their power to make needed purchases in our market.

United States Official Position on Interallied Debts [5]

The indebtedness incurred by the United States to make the foreign loans is not cared for by the sinking fund. Congress contemplated that foreign repayments would provide for that part of our debt. Of late there has been no little discussion as to how this foreign debt should be treated. Some advance the proposal that it should be canceled. This is a favorite plan of some

[5] From *Treasury Report*, 1920. p. 64-5.

Europeans and some Americans. The suggestion is based first on one ground and then on another. At one time it is based on sentiment or on considerations of generosity. By some it is based on the contention that it will promote peace. It apparently is assumed that antagonisms will be set up if the nations of Europe are asked to repay the loans which they sought and so gladly received. At another time it is based on consideration for present producing interests. Voices are heard representing that it will ruin the trade of America if Europe is to send us her commodities for what she owes us. Apparently these advocates contend that international trade will be profitable provided only we give to the world what we produce, declining to receive any commodities in return. I imagine neither of these suggestions will be received with favor by the American taxpayers. They will realize that if the debts are canceled they must pay taxes to meet the interest and to redeem the principal of ten billions of dollars. Another suggestion is that the demand notes now held by the government shall be funded into bonds bearing a higher rate of interest which the debtor nations will consent to exchange for the outstanding bonds and that a direct relation be set up between those who consent to receive such bonds in this country and the foreign debtors, although it is proposed that this government guarantee the bonds. No evidence is furnished that debtor nations would be willing to assent to the creation of a bonded debt with a higher rate of interest with obligation for the immediate payment of interest; and there is nothing in existing law which warrants such a transaction. They should not be charged interest at a rate exceeding the cost to our government of the money borrowed from our people to lend to them. The advances made by the United States to the Allies began only at the time of our entry into the war. For substantially a year we had no considerable military forces in Europe and we were lend-

ing the money needed to supply the part purchased from our people of the materials necessary for the armies of the Allies, who were holding the Germans in the meantime. If, in April, 1917, we had had a vast army in Europe there would have been no considerable loans to the Allies for purchases of war material in this country, since our own armies would have needed all the munitions this country could have produced. In the circumstances we must deal with the debts of the allied governments in a spirit of fairness. The suggestion that we should throw them upon the market appears to me to be as fatuous and impracticable as either of the other suggestions.

The reasonable and proper course is to proceed under the terms of existing law, which authorizes the Secretary of the Treasury to fund the demand notes into obligations with a distant maturity at a rate of interest at least equivalent to that borne by our own bonds, coupled with authority for the time being to defer interest payments.

The Balfour Note [e]

THE EARL OF BALFOUR TO THE FRENCH AMBASSADOR [f]

Your Excellency,

Foreign Office, August 1, 1922.

As your Excellency is aware, the general question of the French debt to this country has not as yet been the subject of the formal communication between the two governments, nor are His Majesty's government anxious to raise it at the present moment. Recent events, however, leave them little choice in the matter, and they feel compelled to lay before the French govern-

[e] From *British White Paper*. Cmd. 1737.

[f] Also to the representatives of Italy, Serb-Croat-Slovene State, Roumania, Portugal and Greece, *mutatis mutandis*.

ment their views on certain aspects of the situation created by the present condition of international indebtedness.

Speaking in general terms, the war debts, exclusive of interest, due to Great Britain at the present moment amount in the aggregate to about £3,400,000,000, of which Germany owes £1,450,000,000, Russia £650,000,000 and our Allies £1,300,000,000. On the other hand, Great Britain owes the United States about a quarter of this sum, say £850,000,000, at par of exchange, together with interest accrued since 1919.

No international discussion has yet taken place on the unexampled situation partially disclosed by these figures; and, pending a settlement which would go to the root of the problem, His Majesty's government have silently abstained from making any demands upon their Allies, either for the payment of interest or the repayment of capital. But, if action in the matter has hitherto been deemed inopportune, this is not because His Majesty's government either underrate the evils of the present state of affairs, or because they are reluctant to make large sacrifices to bring it to an end. On the contrary, they are prepared, if such a policy formed part of a satisfactory international settlement, to remit all the debts due to Great Britain by our Allies in respect of loans or by Germany in respect of reparations.

Recent events, however, make such a policy difficult of accomplishment. With the most perfect courtesy, and in the exercise of their undoubted rights, the American government have required this country to pay the interest accrued since 1919 on the Anglo-American debt, to convert it from an unfunded to a funded debt, and to repay it by a sinking fund in twenty-five years. Such a procedure is clearly in accordance with the original contract. His Majesty's government make no complaint of it; they recognize their obligations and are prepared to fulfill them. But evidently they cannot do so without

profoundly modifying the course which, in different circumstances, they would have wished to pursue. They cannot treat the repayment of the Anglo-American loan as if it were an isolated incident in which only the United States of America and Great Britain had any concern. It is but one of a connected series of transactions in which this country appears sometimes as debtor, sometimes as creditor, and if our undoubted obligations as a debtor are to be enforced, our not less undoubted rights as a creditor cannot be left wholly in abeyance.

His Majesty's government do not conceal the fact that they adopt this change of policy with the greatest reluctance. It is true that Great Britain is owed more than it owes, and that, if all interallied war debts were paid the British Treasury would, on balance, be a large gainer by the transaction. But can the present world situation be looked at only from this narrow financial standpoint? It is true that many of the allied and associated powers are, as between each other, creditors or debtors, or both. But they were, and are, much more. They were partners in the greatest international effort ever made in the cause of freedom; and they are still partners in dealing with some, at least, of its results. Their debts were incurred, their loans were made, not for the separate advantage of particular states, but for a great purpose common to them all, and that purpose has been, in the main, accomplished.

To generous minds it can never be agreeable, although, for reasons of state, in may perhaps be necessary, to regard the monetary aspect of this great event as a thing apart, to be torn from its historical setting and treated as no more than ordinary commercial dealing between traders who borrow and capitalists who lend. There are, moreover, reasons of a different order, to which I have already referred, which increase the distaste with which His Majesty's government adopt so funda-

mental an alteration in the method of dealing with loans to Allies. The economic ills from which the world is suffering are due to many causes, moral and material, which are quite outside the scope of this dispatch. But among them must certainly be reckoned the weight of international indebtedness, with all its unhappy effects upon credit and exchange, upon national production and international trade. The peoples of all countries long for a speedy return to the normal. But how can the normal be reached while conditions so abnormal are permitted to prevail? And how can these conditions be cured by any remedies that seem at present likely to be applied?

For evidently the policy hitherto pursued by this country of refusing to make demands upon its debtors is only tolerable so long as it is generally accepted. It cannot be right that one partner in a common enterprise should recover all that she has lent, and that another, while recovering nothing, should be required to pay all that she has borrowed. Such a procedure is contrary to every principle of natural justice and cannot be expected to commend itself to the people of this country. They are suffering from an unparalleled burden of taxation, from an immense diminution in national wealth, from serious want of employment, and from the severe curtailment of useful expenditure.

These evils are courageously borne. But were they to be increased by an arrangement which, however legitimate, is obviously one-sided, the British taxpayer would inevitably ask why he should be singled out to bear a burden which others are bound to share.

To such a question there can be but one answer and I am convinced that allied opinion will admit its justice. But while His Majesty's government are thus regretfully constrained to request the French government to make arrangements for dealing to the best of their ability with Anglo-French loans, they desire to explain that the

amount of interest and repayment for which they ask depends not so much on what France and other Allies owe to Great Britain as on what Great Britain has to pay America. The policy favored by His Majesty is, as I have already observed, that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of interallied indebtedness. But, if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors, and while we do not ask for more, all will admit that we can hardly be content with less. For it should not be forgotten, though it sometimes is, that our liabilities were incurred for others, not for ourselves. The food, the raw material, the munitions required by the immense naval and military efforts of Great Britain and half the £2,000,000,000 advanced to Allies were provided, not by means of foreign loans, but by internal borrowing and war taxation. Unfortunately, a similar policy was beyond the power of other European nations. An appeal was therefore made to the government of the United States; and under the arrangement then arrived at the United States insisted, in substance if not in form, that, though our Allies were to spend the money, it was only on our security that they were prepared to lend it. This cooperative effort was of infinite value to the common cause, but it cannot be said that the rôle assigned in it to this country was one of special privilege or advantage.

Before concluding I may be permitted to offer one further observation in order to make still clearer the spirit in which His Majesty's government desire to deal with the thorny problem of international indebtedness.

In an earlier passage of this dispatch I pointed out

that this, after all, is not a question merely between Allies. Ex-enemy countries also are involved; for the greatest of all international debtors is Germany. Now His Majesty's government do not suggest that, either as a matter of justice or expediency, Germany should be relieved of her obligation to the other allied states. They speak only for Great Britain; and they content themselves with saying once again that, so deeply are they convinced of the economic injury inflicted on the world by the existing state of things that this country would be prepared (subject to the just claims of other parts of the Empire) to abandon all further right to German reparation and all claims to repayment by Allies, provided that this renunciation formed part of a general plan by which this great problem could be dealt with as a whole and find a satisfactory solution. A general settlement would, in their view, be of more value to mankind than any gains that could accrue even from the most successful enforcement of legal obligations.

I have, etc.

BALFOUR.

PRESS STATEMENT OF SECRETARY MELLON IN REPLY TO THE BALFOUR NOTE [8]

The following statement by the Secretary of the Treasury, regarding the status of the obligations of foreign governments held by the United States, and particularly the origin of the indebtedness of the British government to the United States, was made public on August 24, 1922:

A number of inquiries have been received, as a result of statements recently published, with respect to the exact status of the obligations of foreign governments held by the United States. Especial attention has been directed to the origin of the indebtedness of the British government amounting to about $4,135,000,000. It has been said that this liability was not

[8] From *World War Foreign Debt Commission, Combined Annual Reports.* p. 4-5.

incurred for the British government, but for the other Allies, and that the United States, in making the original arrangements, had insisted in substance that though the other Allies were to use the money borrowed, it was only on British security that the United States was prepared to lend it. It is apparent from the inquiries which have reached the Treasury Department that it is supposed that this, in substance, is the explanation of the existing indebtedness of Great Britain.

In answer to these inquiries, it should be said that the obligations of foreign governments, in question, had their origin almost entirely in purchases made in the United States, and the advances by the United States government were for the purpose of covering payments for these purchases by the Allies.

The statement that the United States government virtually insisted upon a guaranty by the British government of amounts advanced to the other Allies is evidently based upon a misapprehension. Instead of insisting upon a guaranty, or any transaction of that nature, the United States government took the position that it would make advances to each government to cover the purchases made by that government and would not require any government to give obligations for advances made to cover the purchases of any other government. Thus, the advances to the British government, evidenced by its obligations, were made to cover its own purchases, and advances were made to the other Allies to cover their purchases.

The nature of the arrangements is shown by a memorandum which the Secretary of the Treasury, in June, 1918, handed to the British Ambassador, as follows:

> So far as the purchases of the allied governments for war purposes within the United States and its Territories and insular possessions are concerned it is the expectation of the Secretary of the Treasury to continue as heretofore the advances necessary to enable the financing of such approved purchases. The Secretary of the Treasury quite agrees with what he understands to be the views of the Chancellor of the Exchequer that advances shall be made to each allied government for the commodities purchased in the United States by or for it and that no allied government should be required to give its obligations for such purposes when merely serving as a conduit for the supply of the materials so purchased to another allied government. Any other course would indeed be incompatible with what the Secretary of the Treasury deems a cardinal principle which should be followed in respect to such advances, namely, that the allied government for the use of which the commodity is purchased must give its own obligation therefor and the obligation of any other allied government cannot be accepted by the United States as an equivalent.

It is well to further quote from a memorandum handed to the British Ambassador in June, 1920, by the Secretary of the Treasury, in regard to these loans as follows:

> It has been at all times the view of the United States Treasury that questions regarding the indebtedness of the government of the United Kingdom of Great Britain and Ireland to the United States government and the funding of such indebtedness had no relation either to questions arising concerning the war loans of the United States and of the United Kingdom to other governments or to questions regarding the reparation payments of the central Empires of Europe. These views were expressed

to the representatives of the British Treasury constantly during the period when the United States government was making loans to the government of the United Kingdom and since that time in Washington, in Paris, and in London.

From these two statements it appears to be quite clear that the respective borrowing nations each gave their own obligations for the money advanced by the United States and that no guaranty of the obligations of one borrowing nation was asked from any other nation. This is the understanding of the Treasury as to the status of the foreign obligations growing out of the war, now held by the United States.

Position of the French Government Regarding Interallied Debts[9]

NOTE OF SEPTEMBER 1, 1922

Lord Balfour on August 1 handed to the French Ambassador in London, as well as to the representatives of the other European nations, Allies of Great Britain, a letter in which the British government submitted to the other governments its views on certain aspects of the situation created by the present status of international debts. . .

The French government has attached all due importance to this communication, the lofty and courteous terms of which it holds in high appreciation. It is, like the British government, convinced that the problem of reparations can have a real solution only if it is not connected in any manner with the problem of interallied debts; it seems to it necessary that this question be examined before long in all its aspects in a conference to which should be invited without exception all the interested allied countries. That might have been done at the last London conference if the British government had not previously by its note of August 1 taken the position of asking the French government to prepare to pay in the measure that Great Britain was obliged to pay the United States.

I believe I ought to observe that there cannot be established a close connection between the war debts

[9] From *New York Times*. September 2, 1922.

the Allies contracted among themselves and the reparation debts. If the allied governments had not given each other reciprocal financial help from which the present war debts result either the war would have ended badly for them or it would have lasted much longer, and in either case it would have been the lending countries who by the work of their industries or by sending more troops would have had to make the effort which the borrowing countries did make in their stead.

These debts were all contracted in the interest of a common cause. The purchases which they made were all contributed to the victory. During the preparation of the peace treaties the victorious countries decided for the first time in history not to claim from the conquered country the cost of the war. If the payment of war debts is demanded these costs will fall upon those allied countries which furnished the greatest military effort and which assumed the heaviest burden of the war.

As Lord Balfour well says, the interallied debts were contracted not for individual gain of particular countries, but for the great common purpose of all, and this purpose was entirely realized. From the moral point of view, realization of this fact would justify the cancellation of these debts. In any case, it cannot be denied that it gives to these debts a character different from that of ordinary international debts.

On the other hand, the reparation debt of Germany is the effect of destructions which were voluntary and, for the most part, useless, and of the payment of pensions which are owed by the allied governments for losses inflicted by Germany.

This necessary reparation for damage done ought to be paid by Germany.

This necessary reparation (for) damage done ought naturally to have priority over all other settlements. France, who, of all the belligerent countries, was most afflicted by territorial destructions, sees herself forced,

since the payments promised by Germany have not been made, to proceed herself to the restoration of other devastated provinces. It is the advances which she has made from her resources which cause the present disequilibrium of her budget.

She can in no case consider any settlement whatsoever of the debts she contracted during the war as long as the sums which she has advanced and which she will have to advance for reconstruction of her devastated regions have not been covered by Germany, directly or by means of a combination permitting her to mobilize in the near future a sufficient part of her debt.

But once Germany shall have acquitted this obligation which ought to come before all others, the French government would not be opposed to consideration of a general settlement of international debts.

In addition, when it shall be a question of the French government examining in particular a settlement of the British debt, count should be taken of certain considerations.

In the first place the French government, which borrowed from the United States and from Great Britain only to cover its own purchases and without there being any question of guarantee by a third party, must make a distinction between war debts it contracted towards these two countries. A part of the debt owed the United States was incurred after the armistice to cover the purchase of American stocks delivered to the French government and which it resold at a profit to the French Treasury; at least this part of the debt is a commercial debt. Without doubt for the rest of the American credit to France one can use the same reasoning as for the other interallied debts. One cannot forget, nevertheless, that the United States entered the war without its existence being directly menaced and to defend with its honor the principles which form the basis of civilization. Whereas England, like France, had to safeguard

not only her independence and the territory, but also lives and property and means of existence of her citizens.

In the second place the total of the debt to Great Britain, which in reality is not yet fixed at exact figures, should in justice be the object of revision. For example, in the deliveries of supplies and material between the Allies the English ordnance credited itself with all deliveries made at the top price and increased that to take count of "departmental expenses," which is to say overhead costs and export duties collected by the British government, whereas on the contrary, the French ordnance charged its deliveries to the British army at the interior rate paid for French deliveries to the French service without taking count of overhead cost or taxes.

Thus, when the status of payments made for the reparation of devastated regions in France shall permit of a settlement of debts among the Allies, this settlement should be preceded by a careful study, to reduce the total of the debts to fair figures established upon an identical basis. It should, besides, be as general as possible. The government of the Republic asks in this respect to be treated as it treats our common Allies. However, it does not ask the payment of sums which our Allies owe it; it takes account of the fact that, morally and materially, such a claim is indeed inadmissible, and does not even think of making this.

While rendering homage to the spirit in which the British government desires to discuss the problem of international debts, the government of the Republic believes it must draw its attention to the considerations mentioned above. With this reservation, it considers also that a general settlement of these, if it were acquired at the price of reciprocal sacrifices, would be to the profit of humanity.

(Signed) RAYMOND POINCARÉ

Paris, September 1, 1922

AGREEMENT FOR THE FUNDING OF THE DEBT OF GREAT BRITAIN TO THE UNITED STATES[10]

PROPOSAL

Dated the eighteenth day of June, 1923, by His Britannic Majesty's government (hereinafter called Great Britain) to the government of the United States of America (hereinafter called the United States) regarding the funding of the debt of Great Britain to the United States.

Whereas Great Britain is indebted to the United States as of 15th December, 1922, upon demand obligations in the principal amount of $4,074,818,358.44, not including obligations in the principal amount of $61,000,000, representing advances deemed to have been made to cover purchases of silver under the act of Congress approved 23rd April, 1918, of which $30,500,000 has been repaid in April and May, 1923, and the balance is to be repaid in 1924, pursuant to an agreement already made between the parties, and Great Britain is further indebted to the United States, as of 15th December, 1922, on account of interest accrued from 15th April and 15th May, 1919, on said $4,074,818,358.44, principal amount of demand obligations:

And whereas Great Britain has power under the War Loan Act, 1919 (9 and 10 Geo. 5, cap 37) to issue securities in exchange for maturing securities issued under the War Loan Acts, 1914 to 1918:

And whereas the demand obligations now held by the United States Treasury were so issued, and will become payable upon the request of the United States Treasury for their payment:

Now therefore Great Britain proposes, in the exercise of the powers above recited and in consideration and in faith of the statements, conditions, premises and mutual covenants herein contained, to issue to the United States, in exchange for the demand obligations

[10] Under the terms of an Act, approved February 28, 1923, amending the Debt Commission Act, the Commission was authorized to approve the above settlement. It was accepted by the United States on June 19, 1923.

now held by the United States Treasury, securities which shall be in their terms and conditions in accordance with the following provisions:

1. *Amount of indebtedness.*

The total amount of indebtedness to be funded is $4,600,000,000, which has been computed as follows:

Principal amount of demand obligations to be funded		$4,074,818,358.44
Interest accrued thereon from 15th April and 15th May, 1919, respectively, to 15th December, 1922, at the rate of 4¼ per cent per annum	$629,836,106.99	
Less—Payments made by Great Britain on 16th October and 15th November, 1922, on account of interest, with interest thereon at 4¼ per cent per annum from said dates, respectively, to 15th December, 1922	100,526,379.69	
		529,309,727.30
Total principal and interest, accrued and unpaid as of 15th December, 1922		4,604,128,085.74
Paid in cash by Great Britain, 15th March, 1923		4,128,085.74
Total indebtedness to be funded into bonds of Great Britain		4,600,000,000.00

2. *Issue of long-time obligations.*

The securities, which it is proposed to issue at par as promptly as possible, shall be obligations in the principal amount of $4,600,000,000, in the form of bonds to be dated 15th December, 1922, maturing 15th December, 1984, with interest payable semi-annually on 15th June and 15th December in each year at the rate of 3 per cent per annum from 15th December, 1922, to 15th December, 1932, and thereafter at the rate of 3½ per cent per annum until the principal thereof shall have been repaid.

3. *Method of payment.*

The bonds shall be payable as to both principal and interest in United States gold coin of the present standard of weight and fineness, or its equivalent in gold bullion, or, at the option of Great Britain, upon not less than thirty days' advance notice indicating the minimum amount which it is contemplated to pay at next due date in gold, cash or available funds, in any bonds of the United States issued or to be issued after 6th April, 1917, to be taken at par and accrued interest to the date of payment hereunder: *provided, however,* that Great Britain may at its option, upon not less than ninety days' advance notice, pay up to one-half of any interest accruing between 15th December, 1922, and 15th December, 1927, on any British bonds proposed to be issued hereunder, in bonds of Great Britain, maturing 15th December, 1984, dated and bearing interest from the respective dates when the interest to be paid thereby becomes due and substantially similar in other respects to the original bonds proposed to be issued hereunder.

All payments to be made by Great Britain on account of the principal or interest of any bonds proposed to be issued hereunder shall be made at the Treasury of the United States in Washington or, at the option of the Secretary of the Treasury of the United States, at the Federal Reserve Bank of New York and, if in cash, shall be made at the option of Great Britain in gold coin of the United States or in gold bullion or in immediately available funds (or, if in bonds of the United States, shall be in form acceptable to the Secretary of the Treasury of the United States). Appropriate notation of all payments on account of principal shall be made on the bonds proposed to be issued hereunder which may be held by the United States: *provided, however,* that all payments in respect of any marketable obligations issued under paragraph 9 of this proposal shall be made at the office of the fiscal agents of the British government in the city of New York.

4. *Exemption from taxation.*

The principal and interest of all bonds issued or to be issued hereunder shall be exempt from all British taxation, present or future, so long as they are in the beneficial ownership of the United States or of a person, firm, association, or corporation neither domiciled nor ordinarily resident in the United Kingdom.

5. *Form of bonds.*

All bonds proposed to be issued hereunder to the United States shall be payable to the United States of America, or order, shall be issued, so far as possible, in denominations of $4,600,000 each, and shall be substantially in the form set forth in the exhibit. The bonds shall be signed for Great Britain by the Counsellor of His Britannic Majesty's Embassy at Washington.

6. *Repayment of principal.*

To provide for the repayment of the total principal of the debt before maturity of the $4,600,000,000 principal amount of bonds to be issued, it is proposed that the bonds shall contain provisions the effect of which shall be that Great Britain shall make to the United States payments, on account of the original principal amount of the bonds to be issued, in the amounts and on the dates named in the following table:

Date	Annual instalments to be paid on account of principal.	Date	Annual instalments to be paid on account of principal.
15th December:		15th December—Contd.	
1923..........	$23,000,000	1933..........	32,000,000
1924..........	23,000,000	1934..........	32,000,000
1925..........	24,000,000	1935..........	32,000,000
1926..........	25,000,000	1936..........	32,000,000
1927..........	25,000,000	1937..........	37,000,000
1928..........	27,000,000	1938..........	37,000,000
1929..........	27,000,000	1939..........	37,000,000
1930..........	28,000,000	1940..........	42,000,000
1931..........	28,000,000	1941..........	42,000,000
1932..........	30,000,000	1942..........	42,000,000

Date	Annual instalments to be paid on account of principal.	Date	Annual instalments to be paid on account of principal.
1943..........	42,000,000	1965..........	89,000,000
1944..........	46,000,000	1966..........	94,000,000
1945..........	46,000,000	1967..........	96,000,000
1946..........	46,000,000	1968..........	100,000,000
1947..........	51,000,000	1969..........	105,000,000
1948..........	51,000,000	1970..........	110,000,000
1949..........	51,000,000	1971..........	114,000,000
1950..........	53,000,000	1972..........	119,000,000
1951..........	55,000,000	1973..........	123,000,000
1952..........	57,000,000	1974..........	127,000,000
1953..........	60,000,000	1975..........	132,000,000
1954..........	64,000,000	1976..........	136,000,000
1955..........	64,000,000	1977..........	141,000,000
1956..........	64,000,000	1978..........	146,000,000
1957..........	67,000,000	1979..........	151,000,000
1958..........	70,000,000	1980..........	156,000,000
1959..........	72,000,000	1981..........	162,000,000
1960..........	74,000,000	1982..........	167,000,000
1961..........	78,000,000	1983..........	175,000,000
1962..........	78,000,000	1984..........	175,000,000
1963..........	83,000,000		
1964..........	85,000,000	Total	$4,600,000,000

Provided, however, that Great Britain may at its option, upon not less than ninety days' advance notice, postpone any payment of principal falling due as hereinabove provided to any subsequent 15th June or 15th December, not more than two years distant from its due date, but only on condition that, if Great Britain shall at any time exercise this option as to any payment of principal, the payment falling due in the next succeeding year cannot be postponed to any date more than one year distant from the date when it becomes due, unless and until the payment previously postponed shall actually have been made, and the payment falling due in the second succeeding year cannot be postponed at all unless and until payment of principal due two years previous thereto shall actually have been made.

In the event of Great Britain issuing bonds to the

United States in payment of interest accruing between 15th December, 1922, and 15th December, 1927, as proposed in paragraph 3 above, the bonds so issued shall contain provision for the payment of their principal before maturity through annual instalments on account of principal corresponding substantially to the schedule of payments on account of principal appearing in the table hereinabove set forth.

7. *Payments before maturity.*

Great Britain may at its option, on any interest date or dates upon not less than ninety days' advance notice, make advance payments of principal, in addition to the payments required to be made by the provisions of the bonds in accordance with paragraph 6 of this proposal. Any such additional payments shall first be applied to the principal of any bonds which shall have been issued hereunder on account of interest accruing between 15th December, 1922, and 15th December, 1927, and then to the principal of any other bonds which shall have been issued hereunder. And payments made to the United States under this provision shall be in amounts of $1,000,000 or multiples thereof.

8. *Calculation of interest.*

Notwithstanding anything herein contained, the interest payable from time to time on the bonds proposed to be issued shall be computed on the amount of the principal outstanding on the previous interest date, with adjustments in respect of any payment on account of principal which may have been made since the previous interest date.

9. *Exchange for marketable obligations.*

Great Britain will issue to the United States at any time or from time to time, at the request of the Secretary of the Treasury of the United States, in exchange for

any or all of the bonds proposed to be issued hereunder and held by the United States, definitive engraved bonds in form suitable for sale to the public, in such amounts and denominations as the Secretary of the Treasury of the United States may request, in bearer form, with provision for registration as to principal, and/or in fully registered form, and otherwise on the same terms and conditions, as to dates of issue and maturity, rate or rates of interest, exemption from taxation, payment in bonds of the United States issued or to be issued after 6th April, 1917, payment before maturity, and the like, as the bonds surrendered on such exchange, except that the bonds shall carry such provision for repayment of principal as shall be agreed upon; provided that, if no agreement to the contrary is arrived at, any such bonds shall contain separate provision for payments before maturity, conforming substantially to the table of repayments of principal prescribed by paragraph 6 of this proposal and in form satisfactory to the Secretary of the Treasury of the United States, such payments to be computed on a basis to accomplish the retirement of any such bonds by 15th December, 1984, and to be made through annual drawings for redemption at par and accrued interest. Any payments of principal thus made before maturity on any such bonds shall be deducted from the payments required to be made by Great Britain to the United States in the corresponding years under the terms of the table of repayments of principal prescribed in paragraph 6 of this proposal.

Great Britain will deliver definitive engraved bonds to the United States in accordance herewith within six months of receiving notice of any such request from the Secretary of the Treasury of the United States, and pending the delivery of the definitive engraved bonds will, at the request of the Secretary of the Treasury of the United States, deliver temporary bonds or interim

receipts in a form to be agreed upon within three months of the receipt of such request. The United States, before offering any such bonds or interim receipts for sale in Great Britain, will first offer them to Great Britain for purchase at par and accrued interest and Great Britain shall likewise have the option, in lieu of issuing to the United States any such bonds or interim receipts, to make advance redemption, at par and accrued interest, of a corresponding amount of bonds issued hereunder and held by the United States.

10. *Cancellation and surrender of demand obligations.*

Upon the delivery to the United States of the $4,600,-000,000 principal amount of bonds proposed to be issued hereunder, the United States will cancel and surrender to Great Britain, through the British Ambassador at Washington, or his representative, at the Treasury of the United States in Washington, the demand obligations of Great Britain in the principal amount of $4,074,818,-358.44 described in the preamble to this proposal.

11. *Notices.*

Any notice, request or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, or consent of the United States, and shall be sufficient if delivered at the British Embassy at Washington or at the office of the Permanent Secretary of the British Treasury in London; and any notice, request, or election from or by Great Britain shall be sufficient if delivered to the American Embassy in London or to the Secretary of the Treasury of the United States at the Treasury of the United States in Washington. The United States in its discretion may waive any notice required hereunder, but any such waiver shall be in writing and shall not extend to or affect any subsequent notice or impair any right of the United States to require notice hereunder.

Signed on behalf of the Lords Commissioners of His Majesty's Treasury, this eighteenth day of June, 1923, Washington.

A. GEDDES,
His Britannic Majesty's Ambassador Extraordinary and Plenipotentiary.

AGREEMENT FOR THE FUNDING OF THE DEBT OF BELGIUM TO THE UNITED STATES

Agreement made the eighteenth day of August, 1925, at the city of Washington, District of Columbia, between the government of the Kingdom of Belgium, hereinafter called Belgium, party of the first part, and the government of the United States of America, hereinafter called the United States, party of the second part.

Whereas Belgium is indebted to the United States as of June 15, 1925, upon obligations in the aggregate principal amount of $377,029,570.06, together with interest accrued and unpaid thereon; and

Whereas Belgium desires to fund said indebtedness to the United States, both principal and interest, through the issue of bonds to the United States, and the United States is prepared to accept bonds from Belgium upon the terms and conditions hereinafter set forth;

Now, therefore, in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. *Amount of indebtedness*—The indebtedness is divided into two classes—that incurred prior to November 11, 1918, hereinafter called prearmistice indebtedness, and that incurred subsequent to November 11, 1918, hereinafter called postarmistice indebtedness.

(*a*) The amount of the prearmistice indebtedness to be funded is $171,780,000, which is the principal amount of the obligations of Belgium received by the United States for cash advances made prior to November 11, 1918.

(*b*) The amount of the postarmistice indebtedness to be funded after allowing for certain cash payments made or to be made by Belgium is $246,000,000, which has been computed as follows:

Principal of obligations for cash advanced	$175,430,808.68	
Accrued and unpaid interest at 4¼% per annum to December 15, 1922	26,314,491.66	
		$201,745,300.34
Principal of obligations for war material sold on credit	29,818,933.39	
Accrued and unpaid interest at 4¼% per annum to December, 15, 1922	491,359.24	
		30,310,292.63
Total indebtedness as of December 15, 1922.		232,055,592.97
Accrued interest thereon at 3% per annum from December 15, 1922, to June 15, 1925		17,404,169.47
Total indebtedness as of June 15, 1925......		249,459,762.44
Deduct:		
Payments on account of interest received between December 15, 1922, and June 15, 1925, on obligations for war material	3,442,346.20	
Principal payment of $172.01 made August 7, 1923, together with interest thereon at 3% per annum to June 15, 1925	181.58	
		3,442,527.78
Net indebtedness as of June 15, 1925		246,017,234.66
To be paid in cash upon execution of agreement		17,234.66
Total indebtedness to be funded into bonds		246,000,000.00

2. *Repayment of principal*—(*a*) In order to provide for the repayment of the prearmistice indebtedness thus to be funded, Belgium will issue to the United States at par bonds of Belgium bearing no interest in the aggregate principal amount of $171,780,000, dated June

15, 1925, and maturing serially on each June 15 in the succeeding years for sixty-two years, on the several dates and in the amounts fixed in the following schedule:

June 15—		June 15—Continued	
1926	$1,000,000	1958	$2,900,000
1927	1,000,000	1959	2,900,000
1928	1,250,000	1960	2,900,000
1929	1,750,000	1961	2,900,000
1930	2,250,000	1962	2,900,000
1931	2,750,000	1963	2,900,000
1932	2,900,000	1964	2,900,000
1933	2,900,000	1965	2,900,000
1934	2,900,000	1966	2,900,000
1935	2,900,000	1967	2,900,000
1936	2,900,000	1968	2,900,000
1937	2,900,000	1969	2,900,000
1938	2,900,000	1970	2,900,000
1939	2,900,000	1971	2,900,000
1940	2,900,000	1972	2,900,000
1941	2,900,000	1973	2,900,000
1942	2,900,000	1974	2,900,000
1943	2,900,000	1975	2,900,000
1944	2,900,000	1976	2,900,000
1945	2,900,000	1977	2,900,000
1946	2,900,000	1978	2,900,000
1947	2,900,000	1979	2,900,000
1948	2,900,000	1980	2,900,000
1949	2,900,000	1981	2,900,000
1950	2,900,000	1982	2,900,000
1951	2,900,000	1983	2,900,000
1952	2,900,000	1984	2,900,000
1953	2,900,000	1985	2,900,000
1954	2,900,000	1986	2,900,000
1955	2,900,000	1987	2,280,000
1956	2,900,000		
1957	2,900,000		$171,780,000

(*b*) In order to provide for the repayment of the postarmistice indebtedness thus to be funded, Belgium will issue to the United States at par bonds of Belgium in the aggregate principal amount of $246,000,000, dated June 15, 1925, and maturing serially on each June 15, in the succeeding years for sixty-two years, on the several dates and in the amounts fixed in the following schedule:

June 15—		June 15—Continued	
1926	$1,100,000	1958	$3,500,000
1927	1,100,000	1959	3,600,000
1928	1,200,000	1960	3,700,000
1929	1,200,000	1961	3,800,000
1930	1,200,000	1962	4,000,000
1931	1,300,000	1963	4,100,000
1932	1,300,000	1964	4,300,000
1933	1,300,000	1965	4,400,000
1934	1,400,000	1966	4,600,000
1935	1,400,000	1967	4,700,000
1936	1,600,000	1968	4,900,000
1937	1,700,000	1969	5,100,000
1938	1,800,000	1970	5,300,000
1939	1,800,000	1971	5,400,000
1940	1,900,000	1972	5,600,000
1941	1,900,000	1973	5,800,000
1942	2,000,000	1974	6,000,000
1943	2,100,000	1975	6,300,000
1944	2,100,000	1976	6,600,000
1945	2,200,000	1977	6,800,000
1946	2,300,000	1978	7,000,000
1947	2,400,000	1979	7,200,000
1948	2,500,000	1980	7,500,000
1949	2,500,000	1981	7,800,000
1950	2,600,000	1982	8,100,000
1951	2,700,000	1983	8,400,000
1952	2,800,000	1984	8,600,000
1953	2,900,000	1985	8,900,000
1954	3,000,000	1986	9,300,000
1955	3,100,000	1987	9,600,000
1956	3,300,000		
1957	3,400,000		$246,000,000

Provided, however, That Belgium at its option, upon not less than ninety days' advance notice to the United States, may postpone any payment on account of principal falling due as hereinabove provided after June 15, 1935, to any subsequent June 15 or December 15 not more than two years distant from its due date, but only on condition that in case Belgium shall at any time exercise this option as to any payment of principal, the payment falling due in the next succeeding year cannot be postponed to any date more than one year distant from the date when it becomes due unless and until the payment previously postponed shall actually have been

made, and the payment falling due in the second succeeding year cannot be postponed at all unless and until the payment of principal due two years previous thereto shall actually have been made. . .

4. *Payments of interest*—All bonds issued for the postarmistice indebtedness shall bear interest from June 15, 1925, payable in the amounts and on the dates set forth in the following schedule:

December 15, 1925 ..	$ 870,000	December 15, 1930 ..	$1,625,000
June 15, 1926	870,000	June 15, 1931	1,625,000
December 15, 1926 ..	1,000,000	December 15, 1931 ..	1,875,000
June 15, 1927	1,000,000	June 15, 1932	1,875,000
December 15, 1927 ..	1,125,000	December 15, 1932 ..	2,125,000
June 15, 1928	1,125,000	June 15, 1933	2,125,000
December 15, 1928 ..	1,250,000	December 15, 1933 ..	2,375,000
June 15, 1929	1,250,000	June 15, 1934	2,375,000
December 15, 1929 ..	1,375,000	December 15, 1934 ..	2,625,000
June 15, 1930	1,375,000	June 15, 1935	2,625,000

until and including June 15, 1935, and thereafter at the rate of 3½ per cent per annum payable semiannually on June 15 and December 15 of each year until the principal of said bonds shall have been paid. . .

Agreement for the Funding of the Debt of Italy to the United States

Agreement made the fourteenth day of November, 1925, at the city of Washington, District of Columbia, between the Kingdom of Italy, hereinafter called Italy, party of the first part, and the United States of America, hereinafter called the United States, party of the second part

Whereas, Italy is indebted to the United States as of June 15, 1925, upon obligations in the aggregate principal amount of $1,647,869,197.96, together with interest accrued and unpaid thereon; and

Whereas, Italy desires to fund said indebtedness to the United States, both principal and interest, through the issue of bonds to the United States, and the United

States is prepared to accept bonds from Italy upon the terms hereinafter set forth;

Now, therefore, in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. *Amount of Indebtedness*—The amount of indebtedness to be funded, after allowing for certain cash payments made or to be made by Italy is $2,042,000,000, which has been computed as follows:

Obligations taken for cash advanced by Treasury	$1,648,034,050.90	
Accrued and unpaid interest at 4¼% per annum to December 15, 1922	251,846,654.79	
		$1,899,880,705.69
Accrued interest at 3% per annum from December 15, 1922, to June 15, 1925		142,491,052.93
		2,042,371,758.62
Deduct payments made on account of principal since December 15, 1922	164,852.94	
Interest on principal payments at 3% per annum to June 15, 1925	7,439.34	
		172,292.28
Total net indebtedness as of June 15, 1925		2,042,199,466.34
To be paid in cash upon execution of agreement		199,466.34
Total indebtedness to be funded into bonds		2,042,000,000.00

2. *Payment*—In order to provide for the payment of the indebtedness thus to be funded Italy will issue to the United States at par bonds of Italy in the aggregate principal amount of $2,042,000,000, dated June 15, 1925, and maturing serially on the several dates and in the amounts fixed in the following schedule:

June 15—		June 15—Continued	
1926	$ 5,000,000	1958	$ 29,600,000
1927	5,000,000	1959	30,500,000
1928	5,000,000	1960	31,500,000
1929	5,000,000	1961	32,500,000
1930	5,000,000	1962	33,500,000
1931	12,100,000	1963	34,500,000
1932	12,200,000	1964	35,500,000
1933	12,300,000	1965	36,500,000
1934	12,600,000	1966	38,000,000
1935	13,000,000	1967	39,500,000
1936	13,500,000	1968	41,500,000
1937	14,200,000	1969	43,500,000
1938	14,600,000	1970	44,500,000
1939	15,200,000	1971	46,000,000
1940	15,800,000	1972	47,500,000
1941	16,400,000	1973	49,000,000
1942	17,000,000	1974	50,500,000
1943	17,600,000	1975	52,000,000
1944	18,300,000	1976	54,000,000
1945	19,000,000	1977	56,000,000
1946	19,600,000	1978	59,000,000
1947	20,000,000	1979	61,000,000
1948	20,600,000	1980	62,000,000
1949	21,200,000	1981	64,000,000
1950	22,000,000	1982	67,000,000
1951	23,000,000	1983	69,000,000
1952	23,800,000	1984	72,000,000
1953	24,600,000	1985	74,000,000
1954	25,400000	1986	77,000,000
1955	26,500,000	1987	79,400,000
1956	27,500,000		
1957	28,500,000	Total	$2,042,000,000

Provided, However, That Italy, at its option, upon not less than ninety days' advance notice to the United States, may postpone any payment on account of principal falling due as hereinabove provided, after June 15, 1930, to any subsequent June 15 or December 15 not more than two years distant from its due date, but only on condition that in case Italy shall at any time exercise this option as to any payment of principal, the payment falling due in the second succeeding year cannot be postponed at all unless and until the payments of principal due two years and one year previous thereto shall actually have been made. All such postponed payments

of principal shall bear interest at the rate of 4¼ per cent per annum payable semi-annually.

3. *Form of Bond*—All bonds issued or to be issued hereunder to the United States shall be payable to the government of the United States of America, or order, and shall be signed for Italy by its Ambassador at Washington, or by its other duly authorized representative. The bonds shall be substantially in the form set forth in the exhibit and shall be issued in sixty-two pieces with maturities and in denominations as hereinabove set forth and shall bear no interest until June 15, 1930 and thereafter shall bear interest at the rate of ⅛ of 1 per cent per annum from June 15, 1930, to June 15, 1940; at the rate of ¼ of 1 per cent per annum from June 15, 1940, to June 15, 1950; at the rate of ½ of 1 per cent per annum from June 15, 1950, to June 15, 1960; at the rate of ¾ of 1 per cent per annum from June 15, 1960, to June 15, 1970; at the rate of 1 per cent per annum from June 15, 1970, to June 15, 1980, and at the rate of 2 per cent per annum after June 15, 1980, all payable semi-annually on June 15 and December 15 of each year. . .

Great Britain and Italy Debt Agreement [11]

Whereas Great Britain holds Italian Sterling Treasury bills to the value of £610,840,000, representing the war debt of Italy to Great Britain,

And whereas Italy and Great Britain desire to arrive at a friendly settlement of this debt, within the capacity of Italy,

Now, therefore, the Rt. Hon. Winston Leonard Spencer Churchill, Chancellor of the Exchequer of Great Britain, and the Count Giuseppe Volpi di Misurata, Finance Minister of Italy, after having taken into account all relevant considerations, duly authorised there-

[11] Made the twenty-seventh day of January, 1926, between the Kingdom of Italy (hereinafter called Italy) and the United Kingdom of Great Britain and Northern Ireland (hereinafter called Great Britain).

unto by their respective governments subject to such ratification as may be required, have agreed as follows:—

1. Italy agrees to pay, and Great Britain to accept, in satisfaction of the aforesaid war debt, the following Annuities:—

In respect of the current financial year	£2,000,000
In respect of the next two financial years	£4,000,000 a year
In respect of the next four financial years	£4,250,000 a year
In respect of succeeding financial years until 1986-87	£4,500,000 a year
In respect of the financial year 1987-88	£2,250,000

The above payments will be made in sterling at the Bank of England, London, on the 15th March, 1926, and thereafter in equal half-yearly instalments on the 15th September and 15th March of each year, so that the last payment will be made on the 15th September, 1987.

2. Italy will issue and deliver to the British Treasury on or before the 20th February, 1926, a bond substantially in the form set out in the Annex to this agreement in respect of each of the payments provided for in article 1 of this agreement.

3. The payments due under all bonds issued in accordance with this agreement shall be made without deduction for, and shall be exempt from any and all taxes and other public dues, present or future, imposed by or under authority of Italy or any political or local taxing authority within Italy.

4. Italy, at its option, upon not less than ninety days' notice to Great Britain, may postpone such part of any of the half-yearly instalments falling due on or after the 15th September, 1928, as exceeds the sum of one million pounds (£1,000,000) to any subsequent 15th March or 15th September, not more than two years distant from its due date, but only on condition that in case Italy shall at any time exercise this option as to the payment of any instalment, the instalments falling due in the second suc-

ceeding year cannot be postponed at all unless and until the instalments due two years and one year previous thereto shall actually have been paid in full. All such postponed payments shall bear interest at the rate of 5 per cent per annum, payable half-yearly.

5. The accounts relating to the war debt of Italy to Great Britain, including the accounts in connection with the Wheat Executive and War Risks Insurance schemes, shall be finally closed, and the British Treasury shall be entitled to retain any sums credited or to be credited to Italy in respect of such accounts. Save as provided in this agreement, the contracting parties and their agents reciprocally renounce all claims or counter-claims against the other contracting party or their agents in respect of the above-mentioned accounts or the services and supplies to which they relate.

Great Britain likewise renounces all claims outstanding against Italy in respect of the hire of ex-enemy shipping.

6. If at any time it appears that the aggregate payments effectively received by Great Britain under allied war debt funding agreements and on account of reparations or of Liberation Bonds exceed the aggregate payments effectively made by Great Britain to the government of the United States of America in respect of war debts, an account shall be drawn up by the British Treasury, interest at 5 per cent being allowed on both sides of the account; and if that account shows that the receipts exceed the payments, Great Britain will credit Italy against the payments next due by Italy under Article 1 of this agreement with such proportion of that excess as the payments effectively made by Italy under Article 1 of this agreement bear to the aggregate sums effectively received by Great Britain under all allied war debt funding agreements. Thereafter, a similar account will be drawn up by the British Treasury each year, and any further excess of the receipts over the payments shall each year give rise to a credit to Italy of a proportion of

such excess calculated in the manner indicated above. On the other hand, any deficit shall be made good by an increase in the payments next due by Italy up to a similar proportion of such deficit within the limit of the total amount of the credits already allowed to Italy under this Article.

For the purpose of this article any capital sums which may hereafter be realised by Great Britain in respect of reparations or of Liberation Bonds will be taken at their annual value, taking account of amortisation.

7. The £22,200,000 of gold belonging to Italy, which was deposited under the agreements of 1915 against the Italian war debt, will be retained by Great Britain as a non-interest-bearing deposit and will be released to Italy, as to the sum of £1,000,000, in eight equal instalments on the 15th September and 15th March of each of the four years commencing 15th September, 1928, and terminating the 15th March, 1932, and, as to the balance, in equal half-yearly instalments commencing the 15th September, 1932, and terminating the 15th September, 1987, provided always that all the annuities due under Article 1 of this agreement have been integrally paid to date.

8. Upon the execution of this agreement and the delivery to Great Britain of the bonds of Italy to be issued hereunder, duly executed, the British Treasury will cancel and surrender to Italy the Italian Treasury bills held by Great Britain.

Agreement for the Funding of the Indebtedness of France to the United States [12]

Agreement made the 29th day of April, 1926, at the city of Washington, District of Columbia, between the French Republic, hereinafter called France, party of the first part, and the United States of America, hereinafter called the United States, party of the second part.

[12] As yet unratified either by the French or the United States governments.

Whereas, France is indebted to the United States as of June 15, 1925, upon obligations in the aggregate principal amount of $3,340,516,043.72, together with interest accrued and unpaid thereon; and

Whereas, France desires to fund said indebtedness to the United States, both principal and interest, through the issue of bonds to the United States, and the United States is prepared to accept bonds from France upon the terms hereinafter set forth;

Now, therefore, in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. *Amount of Indebtedness*—The amount of indebtedness to be funded, after allowing for certain cash payments made or to be made by France is $4,025,000,000, which has been computed as follows:

Principal of obligations held for cash advanced under Liberty Bond Acts	$2,933,405,070.15	
Accrued and unpaid interest at 4¼% to December 15, 1922..	445,066,027.49	
		$3,378,471,097.64
Principal of obligations given for surplus war supplies purchased on credit...........	407,341,145.01	
Interest at 4¼% from the last interest-payment date prior to December 15, 1922, to December 15, 1922.........	6,324,940.79	
		413,666,085.80
Total indebtedness as of December 15, 1922.....................		3,792,137,183.44
Accrued and unpaid interest at 3% per annum on this amount from December 15, 1922, to June 15, 1925..		284,410,288.75
Total indebtedness as of June 15, 1925..........................		4,076,547,472.19
Credits:		
Payments received on account of interest between December 15, 1922, and June 15, 1925	$50,917,643,13	

Payments on account of principal since December 15, 1922	230,171.44	
Interest on principal payments at 3% per annum from date of payment to June 15, 1925	12,970.73	
		51,160,785.30
Net indebtedness as of June 15, 1925		4,025,386,686.89
To be paid in cash upon execution of agreement		386,686.89
Total indebtedness to be funded into bonds		$4,025,000,000.00

2. *Payment*—In order to provide for the payment of the indebtedness thus to be funded, France will issue to the United States at par, bonds of France in the aggregate principal amount of $4,025,000,000, dated June 15, 1925, and maturing serially on the several dates and in the amounts fixed in the following schedule:

June 15—		June 15—Continued	
1926	$30,000,000.00	1951	$55,040,837.33
1927	30,000,000.00	1952	56,416,858.27
1928	32,500,000.00	1953	57,827,279.71
1929	32,500,000.00	1954	59,272,961.71
1930	35,000,000.00	1955	60,754,785.76
1931	1,350,000.00	1956	62,273,655.40
1932	11,363,500.00	1957	63,830,496.79
1933	21,477,135.00	1958	65,426,259.21
1934	36,691,906.35	1959	55,474,298.82
1935	42,058,825.41	1960	57,138,527.79
1936	52,479,413.67	1961	58,852,683.62
1937	63,004,207.80	1962	60,618,264.13
1938	68,634,249.88	1963	62,436,812.05
1939	74,320,592.38	1964	64,309,916.42
1940	80,063,798.30	1965	66,239,213.91
1941	51,728,872.58	1966	58,764,122.05
1942	57,763,450.02	1967	60,820,866.32
1943	58,918,719.03	1968	62,949,596.64
1944	60,097,093.41	1969	65,152,832.52
1945	61,299,035.28	1970	67,433,181.66
1946	62,525,015.98	1971	69,793,343.02
1947	63,775,516.30	1972	72,236,110.02
1948	65,051,026.63	1973	74,764,373.88
1949	66,352,047.16	1974	77,381,126.96
1950	67,679,088.10	1975	80,089,466.40

June 15—Continued		June 15—Continued	
1976..........	$82,892,597.73	1983..........	$105,462,533.13
1977..........	85,793,838.65	1984..........	109,153,721.79
1978..........	88,796,623.00	1985..........	112,974,102.05
1979..........	91,904,504.81	1986..........	116,928,195.62
1980..........	95,121,162.48	1987..........	113,694,786.64
1981..........	98,450,403.16		
1982..........	101,896,167.27	Total....	4,025,000,000.00

Provided, However, That France, at its option, upon not less than ninety days' advance notice to the United States, may postpone so much of any payment on account of principal and/or interest falling due in any one year as hereinabove provided after June 15, 1926, and prior to June 16, 1932, as shall be in excess of $20,000,000 in any one year, to any subsequent June 15 or December 15 not more than three years distant from its due date, and upon like notice France, at its option, may postpone any payment on account of principal falling due as hereinafter provided after June 15, 1932, to any subsequent June 15 or December 15 not more than three years distant from its due date, but any such postponement shall be only on condition that in case France shall at any time exercise this option as to any payment of principal and/or interest, the payment falling due in the third succeeding year cannot be postponed at all unless and until the payment of principal and/or interest due three years, two years and one year previous thereto shall actually have been made. All such postponed payments shall bear interest at the rate of 4¼ per cent per annum payable semi-annually.

3. *Form of Bond*—All bonds issued or to be issued hereunder to the United States shall be payable to the government of the United States of America, or order, and shall be signed for France by its Ambassador at Washington, or by its other duly authorized representative. The bonds shall be substantially in the form set forth in the exhibit and shall be issued in sixty-two pieces with maturities and in denominations as herein-

above set forth and shall bear no interest until June 15, 1930, and thereafter shall bear interest at the rate of 1 per cent per annum from June 15, 1930, to June 15, 1940; at the rate of 2 per cent per annum from June 15, 1940 to June 15, 1950; at the rate of 2½ per cent per annum from June 15, 1950, to June 15, 1958; at the rate of 3 per cent per annum from June 15, 1958, to June 15, 1965, and at the rate of 3½ per cent per annum after June 15, 1965, all payable semi-annually on June 15 and December 15 of each year. . .

Statement of Amounts Payable to the United States on Account of the Proposed Refunding Bonds to be Issued by France *

Fiscal year	Principal	Annual interest: Per cent	Annual interest: Payments	Annual principal payments	Total annual payments
1926	$4,025,000,000.00				
1927	3,995,000,000.00			$30,000,000.00	$30,000,000.00
1928	3,965,000,000.00			30,000,000.00	30,000,000.00
1929	3,932,500,000.00			32,500,000.00	32,500,000.00
1930	3,900,000,000.00			32,500,000.00	32,500,000.00
1931	3,865,000,000.00			35,000,000.00	35,000,000.00
1932	3,863,650,000.00	1	$38,650,000.00	1,350,000.00	40,000,000.00
1933	3,852,286,500.00	1	38,636,500.00	11,363,500.00	50,000,000.00
1934	3,830,809,365.00	1	38,522,865.00	21,477,135.00	60,000,000.00
1935	3,794,117,458.65	1	38,308,093.65	36,691,906.35	75,000,000.00
1936	3,752,058,633.24	1	37,941,174.59	42,058,825.41	80,000,000.00
1937	3,699,579,219.57	1	37,520,586.33	52,479,413.67	90,000,000.00
1938	3,636,575,011.77	1	36,995,792.20	63,004,207.80	100,000,000.00
1939	3,567,940,761.89	1	36,365,750.12	68,634,249.88	105,000,000.00
1940	3,493,620,169.51	1	35,679,407.62	74,320,592.38	110,000,000.00
1941	3,413,556,371.21	1	34,936,201.70	80,063,798.30	115,000,000.00
1942	3,361,827,498.63	2	68,271,127.42	51,728,872.58	120,000,000.00
1943	3,304,064,048.61	2	67,236,549.98	57,763,450.02	125,000,000.00
1944	3,245,145,329.58	2	66,081,280.97	58,918,719.03	125,000,000.00
1945	3,185,048,236.17	2	64,902,906.59	60,097,093.41	125,000,000.00
1946	3,123,749,200.89	2	63,700,964.72	61,299,035.28	125,000,000.00
1947	3,061,224,184.91	2	62,474,984.02	62,525,015.98	125,000,000.00
1948	2,997,448,668.61	2	61,224,483.70	63,775,516.30	125,000,000.00
1949	2,932,397,641.98	2	59,948,973.37	65,051,026.63	125,000,000.00
1950	2,866,045,594.82	2	58,647,952.84	66,352,047.16	125,000,000.00
1951	2,798,366,506.72	2	57,320,911.90	67,679,088.10	125,000,000.00
1952	2,743,325,669.39	2½	69,959,162.67	55,040,837.33	125,000,000.00
1953	2,686,908,811.12	2½	68,583,141.73	56,416,858.27	125,000,000.00
1954	[illegible]	2½	[illegible]	[illegible]	[illegible]

1956	2,509,053,783.94	2½	[illegible]	[illegible]	125,000,000.00
1957	2,446,780,128.54	2½	61,169,503.21	63,830,496.79	125,000,000.00
1958	2,382,949,631.75	2½	59,573,740.79	65,426,259.21	125,000,000.00
1959	2,317,523,372.54	3	69,525,701.18	55,474,298.82	125,000,000.00
1960	2,262,049,073.72	3	67,861,472.21	57,138,527.79	125,000,000.00
1961	2,204,910,545.93	3	66,147,316.38	58,852,683.62	125,000,000.00
1962	2,146,057,862.31	3	64,381,735.87	60,816,264.13	125,000,000.00
1963	2,085,439,598.18	3	62,563,187.95	62,436,812.05	125,000,000.00
1964	2,023,002,786.13	3	60,690,083.58	64,309,916.42	125,000,000.00
1965	1,958,692,869.71	3	58,760,786.09	66,239,213.91	125,000,000.00
1966	1,892,453,655.80	3½	66,235,877.95	58,764,122.05	125,000,000.00
1967	1,833,689,533.75	3½	64,179,133.68	60,820,866.32	125,000,000.00
1968	1,772,868,667.43	3½	62,050,403.36	62,949,596.64	125,000,000.00
1969	1,709,919,070.79	3½	59,847,167.48	65,152,832.52	125,000,000.00
1970	1,644,766,238.27	3½	57,566,818.34	67,433,181.66	125,000,000.00
1971	1,577,333,056.61	3½	55,206,656.98	69,793,343.02	125,000,000.00
1972	1,507,539,713.59	3½	52,763,889.98	72,236,110.02	125,000,000.00
1973	1,435,303,603.57	3½	50,235,626.12	74,764,373.88	125,000,000.00
1974	1,360,539,229.69	3½	47,618,873.04	77,381,126.96	125,000,000.00
1975	1,283,158,102.73	3½	44,910,533.60	80,089,466.40	125,000,000.00
1976	1,203,068,636.33	3½	42,107,402.27	82,892,597.73	125,000,000.00
1977	1,120,176,038.60	3½	39,206,161.35	85,793,838.65	125,000,000.00
1978	1,034,382,199.95	3½	36,203,377.00	88,796,623.00	125,000,000.00
1979	945,585,576.95	3½	33,095,495.19	91,904,504.81	125,000,000.00
1980	853,681,072.14	3½	29,878,837.52	95,121,162.48	125,000,000.00
1981	758,559,909.66	3½	26,549,596.84	98,450,403.16	125,000,000.00
1982	660,109,506.50	3½	23,103,832.73	101,896,167.27	125,000,000.00
1983	558,213,339.23	3½	19,537,466.87	105,462,533.13	125,000,000.00
1984	452,750,806.10	3½	15,846,278.21	109,153,721.79	125,000,000.00
1985	343,597,084.31	3½	12,025,897.95	112,974,102.05	125,000,000.00
1986	230,622,982.26	3½	8,071,804.38	116,928,195.62	125,000,000.00
1987	113,694,786.64	3½	3,979,317.53	113,694,786.64	117,674,104.17
Total			2,822,674,104.17	4,025,000,000.00	6,847,674,104.17

* From *United States World War Foreign Debt Commission, Combined Annual Reports*, 1927. p. 262.

Agreement for the Settlement of the War Debt of France to Great Britain[13]

The British and French governments, having arrived at a definite settlement of the debts due by France to Great Britain arising out of the Great War,

The undersigned, duly authorised by their respective governments, subject to such ratification as may be required, have agreed as follows:[14]

1. France agrees to pay, and Great Britain to accept, the following annuities in full and final settlement (subject to the provisions of Article 7 of this agreement) of the war debt due by France to Great Britain, in respect of which Great Britain holds French sterling treasury bills to the value of £653,127,900, viz. :—

	£ millions.
During the financial year 1926-27	4
During the financial year 1927-28	6
During the financial year 1928-29	8
During the financial year 1929-30	10
During the financial years 1930-31 to 1956-57 inclusive	12½
During the financial years 1957-58 to 1987-88 inclusive	14

The above payments will be made in sterling at the Bank of England, London, in equal half-yearly instalments on the 15th September and 15th March of each year so that the first instalment shall be paid on the 15th September, 1926, and the last instalment on the 15th March, 1988.

2. France will issue and deliver to the British Treasury on or before the 15th September, 1926, a bond in respect of each of the instalments provided for in Article 1 of this agreement.

3. The payments due under all bonds issued in accordance with this agreement shall be made without deduction for, and shall be exempt from, any and all taxes and other public dues present or future imposed by or

[13] *British White Paper.* Cmd. 2692.

[14] As yet unratified.

under authority of France or any political or local taxing authority within France.

4. France, at her option, upon not less than ninety days' notice to Great Britain, may postpone payment of a part not exceeding one-half of any of the half-yearly instalments due under Article 1 to any subsequent 15th September or 15th March not more than three years distant from its due date, but only on condition that in case France shall at any time exercise this option as to the payment of any instalment, the instalments falling due in the third succeeding year cannot be postponed at all unless and until the instalments due three years, two years and one year previous thereto shall actually have been paid in full. All such postponed payments shall bear interest at the rate of 5 per cent per annum, payable half-yearly.

5. If at any time it appears that the aggregate payments effectively received by Great Britain under allied war debt funding agreements and on account of reparations or of Liberation Bonds exceed the aggregate payments effectively made by Great Britain to the government of the United States of America in respect of war debts, an account shall be drawn up by the British Treasury, interest at 5 per cent being allowed on both sides of the account; and if that account shows that the receipts exceed the payments, Great Britain will credit France against the payments next due by France under Article 1 of this agreement with such proportion of that excess as the payments effectively made by France under Article 1 of this agreement bear to the aggregate sums effectively received by Great Britain under all allied war debt funding agreements. Thereafter a similar account will be drawn up by the British Treasury each year, and any further excess of the receipts over the payments shall each year give rise to a credit to France of a proportion of such excess calculated in the manner indicated above. On the other hand, any deficit shall be made good by an increase in the payments next due

by France up to a similar proportion of such deficit within the limit of the total amount of the credits already allowed to France under this Article.

For the purpose of this Article any capital sums which may hereafter be realised by Great Britain in respect of reparations or of Liberation Bonds will be taken at their annual value, taking account of amortisation.

6. The accounts relating to the war debt of France to Great Britain shall be finally closed, and the British Treasury shall be entitled to retain any sums credited or to be credited to France in respect of such accounts. Save as provided in this agreement, the contracting parties and their agents reciprocally renounce all claims or counterclaims against the other contracting party or their agents in respect of the above-mentioned accounts or the services and supplies to which they relate.

7. The sum of £53,500,000 shall remain as a non-interest-bearing debt of France to Great Britain, the repayment of which will be settled by a further agreement. Meanwhile, the British government will retain (without interest) against this debt the gold remitted to London by the French government during the war under the Calais agreement.

8. Upon the execution of this agreement and the delivery to Great Britain of the bonds of France to be issued hereunder, duly executed, the British Treasury will cancel and surrender to France the French Treasury bills at present held by Great Britain.

Done in duplicate both in English and in French, the original English text being authentic in case of difference.

London, this twelfth day of July, 1926.

For the United Kingdom of Great Britain and Ireland:

WINSTON S. CHURCHILL,
Chancellor of the Exchequer.

For the French Republic:

J. CAILLAUX,
Minister of Finance.

Provisional Debt Agreement of the French Government with the United States [15]

The text of the provisional agreement with the United States Treasury regarding payment of the French war debt was published in the French press on March 2d, 1927. It runs as follows in translation:

> The French government will turn over to the government of the United States, June 15, 1927, the sum of $10,000,000 on account of the actual debt of the French government to the United States, not including the debt contracted for the purchase of left-over war stocks. When an accord consolidating the debt will have been ratified by the American Congress and the French Parliament, it is understood that the said sum of $10,000,000 will be credited to the annuities provided by such accord.
>
> The French government will continue to make payments on account of the above-mentioned debt for war stocks according to the terms of French obligations as specified in the contract held by the United States. It is understood that the present arrangement will prejudice in no way the ratification of the debt accord concluded April 29, 1926.

Statement by Secretary Mellon Concerning the Settlements of the Indebtedness of Belgium, Czechoslovakia, Estonia, Italy, Latvia, and Rumania [16]

January 4, 1926.

During the war the United States made loans to the Allies largely to assist them in purchases of supplies in the United States. The original loans bore interest at 3½ per cent, being the interest rate carried on the first Liberty Loan issue. The rate was subsequently made 5 per cent. After the armistice the United States continued to make advances to the Allies to complete their contracts in the United States and to purchase food and surplus war supplies from the United States. Relief was also extended to a number of the smaller nations

[15] From *European Economic and Political Survey.* 2: 375-6. March 15, 1927.

[16] By Secretary Mellon, as chairman of the World War Foreign Debt Commission, before the Ways and Means Committee of the House.

largely born of the war. At the conclusion of the war period, the Treasury held the obligations of some twenty nations, in general payable on demand with interest at 5 per cent per annum.

The world was in a state of financial disorder. No nation could have paid its debt had we demanded it. Most could not even pay the interest rate of 5 per cent called for by their obligations. Only with time and more settled conditions did possibility of adjustment arise.

Recognizing the fact that our debtors could not pay on demand, Congress originally authorized debt funding on not longer than a twenty-five year basis and at not less than 4¼ per cent interest. Subsequently, when it was apparent that this basis of settlement was beyond the capacity of most of the debtors, the American Debt Commission was given general authority to recommend settlements to Congress. It is as the expert body created by Congress that we have presented our recommendations in the six cases now pending.

Since foreign debt settlements do not seem to be clearly understood, I wish to mention some rather elemental facts. The obligations held by the Treasury generally call for payment on demand and such payment cannot be made. We must find practical terms. Now, if we are owed $62 and payment is made today, we receive the full value of our loan. If payment is made at the rate of $1 a year for sixty-two years without interest, we would be conceding a part of the debt. What this concession amounts to can be variously estimated depending on the rate of discount arbitrarily taken. If we use 4¼ per cent, the present value of a $1 annuity for sixty-two years is a little over $21; if we use 3 per cent, its present value is $28. If, however, instead of $1 a year for sixty-two years without interest, we should charge interest at the cost of money to us, we get the full value of the loan, since we could borrow the $62 today, pay interest on the borrowing, and repay the prin-

cipal as annuities are received. From the United States standpoint, therefore, the question of whether a particular settlement represents a reduction in the debt depends on whether the interest charged over the entire period of the agreement is less than the average cost to us of money during that period. The flexibility in debt settlements is found in the interest rate to be charged.

The situation of each debtor nation is particular, that is, its capacity to pay is not the same as the capacity of some other nation. It has been felt by the debt commission, however, that repayment of principal is essential in order that the debtor might feel that it had paid its debt in full and that we might know that we had our capital returned to us. The commission felt, therefore, that no funding should be made which did not repay the principal, and thus we have maintained the integrity of international obligations. Adjustment to the capacity of each case is made in the interest to be paid over the period of the agreement.

Great Britain was the first nation to recognize the desirability of putting its house in order. Great Britain owed some $4,600,000,000 of principal and interest on its demand obligations. The American Debt Commission recommended a settlement on the basis of principal payments over a sixty-two year period, with interest at the rate of 3 per cent per annum for the first ten years and 3½ per cent thereafter. Congress has approved the settlement. Taking into account the current interest rate when the settlement was made, the British agreement does not represent payment in full. If we figure the present value of the settlement at 4¼ per cent, we canceled 20 per cent of the debt. The settlement was, however, entirely based on our estimation of Great Britain's capacity to pay. It is a precedent for the recognition of the principle of capacity to pay and is not a set formula to control other cases of substantially less capacity.

It is the rule that a debtor cannot prefer one creditor over another. The debtor must treat all creditors alike. On the other hand, the creditor has the option of treating each of its debtors separately. It may insist on payment in full from one, give time to another, and cancel the indebtedness of a third, and no one of the three debtors has a right to complain of the treatment accorded the other. There follows from the foregoing that England, which is also a creditor of many nations who are debtors to us, has the right to insist that no debtor of it pay us more in proportion than England receives. The debtor nation may not discriminate between its two creditors. It has been frequently stated in Parliament that England has no just cause of complaint if the United States settles with one of its debtors on terms easier than those accorded England. As a matter of fact, England itself in dealing with its European debtors has made settlements more favorable to one than to another. I want to be clear that the British-American settlement is one based on capacity to pay, and not a fixed formula to which all others, irrespective of capacity, must conform, and that a creditor is free to settle with its debtors as it may choose.

As other nations have approached the American Debt Commission for a funding of their debts, it has been the position of the American commission that since England represents the strongest of its debtors, America would not ask heavier terms than those offered by England. The commission would consider the British-American basis as prima facie a fair basis of settlement. If such a settlement was beyond the capacity of the particular nation, then the commission would recognize this capacity by way of a reduction in the interest rate, but in no event cancel any of the principal. As we settled with England on her capacity, so consistently we must consider capacity in every other case.

Generally speaking, our foreign indebtedness may be

divided into two general classes—advances to carry on the war and advances after the war for relief and for the stabilization of Europe. Among the nations in the first class are included England, France, Italy, Belgium, Russia, and Serbia, although loans were made after the armistice. In the second class are the countries on the Baltic Sea, Finland, Lithuania, Latvia, Estonia, and Poland, the former enemy countries of Austria and Hungary, and the Balkan countries of Czechoslovakia, Rumania, and Greece.

The general plan applied to the settlement of the second class has been the British-American basis, with easier treatments in the earlier years depending upon the particular circumstances of the nation involved. Hungary, Finland, and Lithuania have been settled on the straight British-American basis. Poland, Latvia, and Estonia have been given the option to fund 75 per cent of the payments which would have been due for principal and interest for the first five years over the remaining fifty-seven years of the agreement. Czechoslovakia for the first eighteen years pays about three-fourths of what it would have paid under the straight British-American basis and the balance is funded over the remaining years of the sixty-two year period. Rumania pays a graduated scale to reach the British-American basis at the end of the twelfth year and the balance is funded. In every case the balance funded is at the interest rates of 3 per cent and 3½ per cent. The variations in the earlier years of these agreements have been occasioned by the present fiscal situation of the nation involved and represent a determination of the capacity of payment for these earlier years. In each case the American Debt Commission was of the opinion that over the whole period, subject to the earlier modifications, the British-American basis was within the capacity of the particular nation.

The debt-funding agreements of the nations in this second class have been approved by Congress in the cases

of Finland, Lithuania, Poland, and Hungary. In the cases of Latvia, Estonia, Czechoslovakia, and Rumania, the debt-funding agreements are now pending. In the case of Austria, Congress has voted a twenty-year moratorium recognizing Austria's present want of capacity. Yugoslavia and Greece have not yet negotiated a settlement.

Coming now to the large debtors, no agreement has been reached with France, but the commission has negotiated funding agreements with Belgium and Italy.

In the Belgian agreement the indebtedness of Belgium has been separated between prearmistice debt and postarmistice debt; that is, indebtedness created before or after the 11th of November, 1918. The postarmistice indebtedness has been settled on the British-American basis, with the exception that during the first ten years interest rates are scaled up on an arbitrary basis to reach 3½ per cent at the beginning of the eleventh year. As to the prearmistice indebtedness the principal is to be repaid in substantially equal installments over the period of sixty-two years. Accrued and accruing interest is waived. The circumstances which influenced the American Debt Commission in recommending this concession on the prearmistice debt were these: Almost all of Belgium was occupied by Germany since the early days of the war. Germany had taken from Belgium and moved into Germany most of the industrial machinery and equipment which it had found in Belgium. The value of the war damage done to Belgium was estimated at, roughly, $1,000,000,000. During the period of occupation Germany had caused to be printed and circulated in Belgium paper money which the Belgian people, in the occupied territory, were forced to receive. At the conclusion of the war Belgium had to redeem this worthless currency, issuing its own money in exchange therefor. The loss to Belgium on this account was about $1,200,000,000. Belgium had received prior to the armis-

tice about $1,300,000,000 in advance from France, Great Britain, and the United States, France advancing over $600,000,000, Great Britain more than $500,000,000, and the United States less than $200,000,000.

At the time of the negotiation of the Versailles treaty Belgium demanded that she be given a preferred claim on reparations to the extent of her war damage; that Germany be compelled to redeem in gold the worthless paper marks taken up by Belgium; and that the three principal Allies forgive their prearmistice loans, and Belgium stated that unless such preferences were given she would withdraw from the peace conference. In order to prevent a break in the negotiations, representatives of the United States, England, and France proposed that Belgium be given a prior charge on reparation of $500,000,000; that each representative recommend to his respective government the adoption of an arrangement under which the prearmistice debt of Belgium would be assumed by Germany and Belgium released; and that Belgium withdraw her other demands for the remainder of war damage and for reimbursement for the German currency. Accepting this compromise, Belgium continued in the conference. Subsequently the United States, entirely within its rights, declined to accept Germany as a substitute for Belgium on the prearmistice debt. The argument of Belgium was that it had waived its demand for $2,200,000,000 of preferred reparations relying on a promise which was unfulfilled, and that it was now too late to restore Belgium to the position it had formerly occupied. The American commission felt that the equities were with Belgium. We would not agree to substitute Germany as our debtor, although England and France, with larger debts than ours, have done so. We did not think it just, however, to ask Belgium to repay more than the principal of the prearmistice advances. Belgium continues solely liable to us.

Taking the Belgian settlement as a whole, both the

prearmistice and postarmistice, the American commission felt that the payments required from Belgium substantially represent its capacity to pay. Belgium is a small nation, densely populated, with few natural resources, and obliged to import a large proportion of its food supply. Its foreign investments have been exhausted by the war, the balance of trade has for a great many years been adverse, and Belgium will require in the near future large borrowings abroad in order to stabilize its currency and to reduce the inflation caused by the paper money issued by Germany during the occupation.

Another settlement now before Congress is that with Italy. To the original principal of the Italian debt of $1,648,000,000 was added interest at 4¼ per cent per annum to December 15, 1922, the date of the British settlement, and at 3 per cent per annum to the date of the new settlement, making a total to be funded of $2,042,000,000. Repayment of the new principal is made on the same scale as on the British-American basis, with the exception that in the first five years there is a slight modification. To meet Italy's capacity to pay, interest rates during the period of the funding agreement after the first five years have been fixed during successive ten year periods at ⅛ of 1 per cent, ¼ of 1 per cent, ½ of 1 per cent, ¾ of 1 per cent, 1 per cent and 2 per cent for the last seven years. The interest rates recognize the quite material difference between Italy and other debtor countries with whom negotiations for settlement have been made. Italy has no natural resources and no productive colonies. Its balance of trade has always been adverse; a large part of the country is mountainous, and it must import food for its rapidly increasing population. Coal, iron, copper, cotton, oil, and other raw materials have to be imported. The standard of living and the taxable capacity of its people are extremely low. The assets of Italy are but the labor of its people and its water power.

No better example of the equitable principle of capacity to pay which must apply to a debt settlement can be given than in the case of Italy. Italy owes the United States over $2,000,000,000. It owes England about 25 per cent more than this. Any payment to the United States must be contemporaneously met by proportionately greater payments to England. To pay a dollar to the United States in debt settlement means that Italy must pay $1.25 to England. The settlement of the Italian-American debt on the British-American basis would have meant that Italy must pay at once $71,000,000 per year, and a similar settlement of the British-Italian debt would require the payment of $89,000,000 per year, a total to be added to the tax burden of the Italian people of $160,000,000. The present total of all Italian taxes is about $850,000,000. The present total of all American taxes is about $7,500,000,000. Adding $160,000,000 to the Italian taxes would be the same as adding $1,400,000,000 to taxation in America. This would be a terrific burden to America, but we might stand it because our average income is high and the American people would not be forced below the level of subsistence; that is, we would still have enough to live on. The Italian people, however, are now so heavily taxed in proportion to the national income that this additional tax would have forced them below the level at which life can be supported. Such payments today are impossible. We should have made a China of Italy. You will appreciate what I mean by the present close approach of the Italian to the level of subsistence when it is understood that the adoption in the Italian income tax law of the same exemptions carried in our 1924 law—not the increased exemptions under the proposed law—would reduce the Italian government's revenue from income tax by 99 per cent. An insistence of a settlement of the Italian-American debt on the British-American basis would have been entirely futile. Italy could not have

paid, and such an insistence would have meant only that the United States would receive nothing.

The comparative burdens of the war-debt settlements of England, Belgium, and Italy are a fair test of the adequacy from an American standpoint of the Italian settlement. It must be remembered that Italy owes Great Britain 25 per cent more than it owes the United States, and any American settlement will probably have to be followed by an English settlement on substantially a proportionate basis. There are three principal factors in the finance of any country which furnish indices by which a comparison of the weight of a new fiscal burden can be measured. These are the total budget, representing what all instrumentalities of government collect from the people; the total foreign trade, which has a bearing on the capacity to transfer payments abroad; and the total national income, which is the ultimate source of a country's capacity to pay. If we apply these indices to the three settlements, we obtain the following comparison: The British-American settlement calls for an annual average payment equivalent to 4.6 per cent of the total British budget expenditures, the Belgian settlement 3.5 per cent, and the Italian settlement to America alone 5.17 per cent, and to America and Great Britain 11.47 per cent of Italy's total budget expenditures. The British settlement calls for an annual average charge corresponding to 1.9 per cent of the total British foreign trade. This figure is 0.88 per cent with Belgium. Italy's average payment to the United States is 2.87 per cent of its total foreign trade, and the combined payments to the United States and England 6.32 per cent of its total foreign trade. Great Britain's average annuity represents 0.94 per cent of its national income; Belgium's, 0.80 per cent; Italy to the United States alone, 0.97 per cent; and to the United States and Great Britain, 2.17 per cent of its total national income. If we averaged

the three indices, the comparative Italian burden of war debts would be represented by 6.72, the British 2.4, and the Belgian by 1.75.

If instead of using the average annual annuity we should compare the present value of the settlements with the sum of these three indices—the total budget, the total foreign trade, and total national income for a year of each of the countries—the burden of the British settlement represents 11.7 per cent of this sum, the Belgian settlement 7 per cent, and the Italian war debts to the United States and England combined 19.8 per cent. Suppose that America had to assume a burden comparable to the burden of war debts upon Italy based upon the above indices, the present value of this burden would be over $15,000,000,000, or three-fourths of our present public debt, and if we were to pay this war debt on the same scale as in the Italian agreement, after five years we would be paying an annuity of over $400,000,000, after thirty years of over a billion dollars, and by the end of the period of considerably over two billion a year. Consideration must be given in these comparisons to the income and standard of living in Italy, which are lower than in either England or Belgium and very much lower than in the United States, and which, therefore, would make the same burden relatively higher in Italy than in other countries.

In its negotiations for the funding of the debt, the American Debt Commission has been forced to consider these facts: No nation, except by the pressure of public opinion and the necessities of its own credit, can be compelled to pay a debt to another nation. An insistence on a funding agreement in excess of the capacity of the nation to pay would justify it in refusing to make any settlement. None can do the impossible. If the debtor is to be able to pay and if the creditor is to receive anything, a settlement fair to both countries is essential. It

follows that those who insist upon impossible terms are in the final analysis working for an entire repudiation of the debts. The only other alternative which they might urge is that the United States goes to war to collect.

Europe is our largest customer. Unless the finances of Europe can be restored, her currency placed on a sound basis, and her people able to earn and to spend, this country will not be able to dispose of its surplus products of food, materials, and goods. Our exports to Belgium last year were $114,000,000 and imports $66,-000,000. Our exports to Italy were $185,000,000 and imports $75,000,000. Of the total exports to the two countries, 26 per cent were foodstuffs and 36 per cent were cotton. Nearly two-thirds of the exports represent the surplus products of the American farmer.

Germany began a reestablishment of sound currency in the latter part of 1923. In that year it imported $149,-000,000 of cotton from us. With the Dawes plan and a proper financial system exports of cotton increased in 1924 to $223,000,000 and in the first ten months of 1925 to $198,000,000, or at the rate of $231,000,000 a year. Here is the real interest of America in the stabilization of Europe, in which prompt debt settlements are an integral part.

The countries of Europe must be restored to their place in civilization. In this process of reconstruction certain essentials have to be met: First, the budget must be balanced. This is a domestic question for each nation to solve. Second, payments coming due in the future must be ascertained. Interallied debts constitute the principal item in this essential and in order that their settlement be effective the terms must be definite in amount and time and within the capacity of the debtors. We have learned the folly of imposing indefinite and impossible terms from the experiment with Germany before

the Dawes plan. And, third, America with its excess of capital seeking profitable investment must aid by making private loans to Europe for productive purposes. Only from those private loans during the past year have the countries abroad been able to pay for our wheat and cotton. It is these new loans which make our exports possible.

The American commission has not recommended settlements of the debts to profit those who wish to loan money abroad. It is possible since any payment necessarily involves a strain on the debtor country that the insistence on impossible terms which would justify a refusal of the debtor to fund might be more acceptable to the international bankers. But the settlements are made in the real interests of those American producers who must have a foreign market able to pay. The American producer needs these debt settlements. The entire foreign debt is not worth as much to the American people in dollars and cents as a prosperous Europe as a customer.

The capacity of a nation to pay over a long period of time is not subject to mathematical determination. It is and must be largely a matter of opinion, but we have been fortunate in the constitution of the American Debt Commission to have a representation from the administration, from Congress, and from private life, and from both political parties. We have facilities to acquire information through the State Department, the Treasury, and the Department of Commerce. We bring a varied experience to the consideration of the debt settlements, and our recommendations are unanimous. While some may believe our recommendations too lenient and others too harsh, I know that it is the honest judgment of the commission that they are just settlements in the real interests of our country. The President has approved each settlement.

Statement by Secretary Mellon Concerning the Settlements of the Indebtedness of France and the Kingdom of the Serbs, Croats, and Slovenes [17]

May 20, 1926.

On January 4, 1926, I appeared before the committee in connection with the debt settlements with Belgium, Czechoslovakia, Estonia, Italy, Latvia, and Rumania, which were then before you for consideration. I discussed briefly the principles applied by the commission in negotiating and effecting a settlement.

It is not necessary for me to repeat what I stated at that time. Since then the commission has concluded two additional settlements, one with France, the other with the Kingdom of the Serbs, Croats, and Slovenes, or Yugoslavia. These have been presented to Congress for approval.

I. SETTLEMENT WITH FRANCE

Referring first to the settlement with France: The amount to be funded has been calculated on the same basis as in the other debt settlements, at 4¼ per cent interest to December 15, 1922, and at 3 per cent interest thereafter to June 15, 1925, the date of the agreement. The total to be funded, after a cash payment of $386,686.89 to adjust the amount to round figures, is $4,025,000,000. Of this amount $3,340,000,000 represents principal and $685,000,000 the accrued interest to the date of the agreement.

Under the agreement France pays $30,000,000 a year the first two years; $32,500,000 a year the third and fourth years, and $35,000,000 the fifth year. The annuities increase each year, reaching $125,000,000 in the seventeenth year, thereafter continuing at that figure, except for the sixty-second year, when the payment is

[17] Given before the Ways and Means Committee.

approximately $118,000,000. Under the agreement the total principal of the funded debt (including $685,000,000 accrued interest) will be repaid in full with interest on the funded principal as follows: After the first five years and for the next ten years, 1 per cent per annum; for the succeeding ten years, 2 per cent per annum; for the succeeding eight years, 2½ per cent per annum; for the succeeding seven years, 3 per cent per annum, and for the remaining twenty-two years, 3½ per cent per annum.

The total payments to be received from France on account of the $3,340,000,000 originally loaned is $6,-847,674,104.17. The present value of these payments on a 4¼ per cent basis is $2,008,122,624, or practically 50 per cent of the debt funded, as compared with the Italian settlement of 26 per cent.

Although the United States has outstanding a substantial amount of liberty bonds bearing 4¼ per cent interest, a large part of the government's requirements are now being financed at a much lower rate. The average cost of money to the United States probably will continue to decline. Securities with high interest rates issued during the war will be paid, redeemed, or refunded. If we assume that the average cost of money to the United States for the next sixty-two years will approach a 3 per cent basis, and if we determine the present value of the French annuities on that basis, we arrive at a figure which would approximate their actual value today.

The present value of the French payments on a 3 per cent basis is $2,734,000,000. This is approximately 82 per cent of the principal amount of the $3,340,000,000 French debt.

Until the present negotiations and settlement the best offer received from France was made last October after two weeks of negotiations with a French commission. Under that offer France was to pay $40,000,000 a year

for five years, $60,000,000 a year for the next seven years, and $100,000,000 a year for the succeeding fifty-six years. There was included, however, as an essential element of the proposal, a so-called "safeguard clause," the effect of which was to relieve France of making payments to the United States if Germany did not pay reparations. The receipt by the United States of the payments, therefore, would be uncertain. A comparison of the previous offer with the present settlement shows the following:

(1) The "safeguard clause" has been eliminated.

(2) Under the settlement the total payments to be received from France are $6,847,000,000 against $6,220,000,000 under the offer, an increase of $627,000,000. The present value of this settlement on a 4¼ per cent basis is $2,008,000,000; the present value of the former offer was $1,755,000,000, an increase of $253,000,000.

(3) In the first five years France offered last October $200,000,000. Under this settlement we are to receive $160,000,000. The slightly smaller payments for the first five years were made necessary because the present fiscal condition of France is less strong than it was at the time of the negotiations last fall. Under present exchange rates the payment of the first annuity of $30,000,000 requires that France find approximately 1,060,000,000 francs. Last October to make a payment of $40,000,000 France would have been required to find 846,000,000 francs. The lower annuity in dollars represents today a higher annuity in francs.

(4) From the sixth to the tenth year under the offer the United States would receive $300,000,000; under this settlement the United States will receive $305,000,000.

(5) From the eleventh to the fifteenth year France offered $420,000,000; under this settlement France will be required to pay $520,000,000.

(6) The maximum annuity under the offer was $100,000,000, reached after the twelfth year; the maximum annuity in this settlement is $125,000,000, reached after the sixteenth year.

In conducting negotiations for settling the war debts we meet with criticism from two extremes. One body of opinion would have us forgive entirely the debts because the money was loaned during or immediately after a war against a common enemy. Those who maintain such a position fail to recognize the responsibility of the representatives of a government to its citizens.

Public officials, whether in the legislative or executive branch of the government, are essentially trustees. They are trustees for the citizens of their own country. They are not free to give away the property of the beneficiaries of the trust. An individual can do what he will with his own property. A public official, however, must keep firmly in view that he is dealing not with his own property but with property intrusted to his care by the citizens of his country.

Moreover, those who urge a complete forgiveness of debts ignore entirely the effect upon the country whose debt is forgiven. All self-respecting people desire to discharge their obligations. This is true of nations as of men. It is true of France.

At the other extreme are those who insist that we should collect the full principal and interest of the debts. In its final analysis the maintenance of this position could but reach the practical result that nothing would be collected, since the full payment of the debt is beyond the capacity of the debtor. While a trustee may not give trust money away, while he may not even be generous at the cost of those for whom he is trustee, it is equally true that a trustee must manage the trust with business intelligence. Any trustee would be derelict in the performance of his duty if by demanding the impossible he should lose the possible.

The settlement with France is but another application of the principle of capacity to pay. I appreciate, as all reasonable men must, that it is not possible for any set of men to determine with mathematical accuracy the future capacity of a great nation to tax itself and to transfer the avails of taxation to another nation. We are forced to look at the present, and to estimate the future.

France at present is not able to set apart large sums to be transferred abroad as payments on account of her external debts. Despite great efforts she has not yet fully repaired the losses in man power and property caused by the war. Her domestic debt has reached enormous proportions, her currency is inflated, and it is becoming increasingly difficult to raise by taxation sufficient funds to meet the charges on her debt and to pay her ordinary governmental expenditures. Subject to the ill effects of a fluctuating currency, she has been making every effort to balance her budget. France must fix the amount of her obligations abroad so that she may definitely know all her commitments. Having completed a settlement of her obligations to this country, she has started negotiations with her other large creditor. When a settlement has been reached with Great Britain she will then be in a position to balance her budget, check inflation, stabilize her currency, and put her finances on a permanently sound basis. Until these have been accomplished, France cannot be expected to make large payments on account of her war debts to the United States and Great Britain. To insist on too heavy payments in the early years might well jeopardize the accomplishment of these reforms essential to her economic and financial rehabilitation.

Criticism has been made of France for the situation in which she now finds herself. In our criticism we are likely to forget the factors which contributed to that situation. The French people gave so fully of their man

power and their industry during the four years of war, fought mainly on their own soil, that French taxation during the period of the war and the period immediately following could not be so heavy as in those countries which were never occupied by the enemy. The richest industrial section of France lay directly in the course of the German armies, and when recovered was in a destroyed condition.

France was faced with the problem of deciding whether it would leave the country in this condition, with its industry permanently crippled, or would recondition the soil and rebuild its plants at whatever cost, and thus increase the wealth-producing power of the nation. The former course might have permitted more immediate taxation. The latter course was in substance the re-creation of industries able in the future to bear a proper burden of taxation. France chose the latter course.

In my statement of January 4, 1926, I compared the burden of the various settlements in terms of the total budget, total foreign trade, and total national income and an average for the three indices.

The total budget represents what the government collects from the people, the total foreign trade has an important bearing on the capacity to transfer sums abroad, and the total annual income is in final analysis the ultimate source of the country's capacity to pay.

The British settlement calls for an annual average payment equivalent to 4.6 per cent of the total British budget expenditures; the Belgian settlement, 3.5 per cent; the Italian settlement to America alone 5.17 per cent, and the French settlement 7.33 per cent. The British settlement calls for an average annual charge corresponding to 1.9 per cent of the total British foreign trade, the Belgian settlement 0.88 per cent, the Italian settlement 2.87 per cent, and the French settlement 2.64 per cent. Great Britain's average annuity represents 0.94

per cent of its national income, Belgium's 0.80 per cent, Italy's 0.97 per cent, France's 1.47 per cent. If we average the three indices, the comparative French burden of her debt would be 3.81 per cent, the Italian, 3 per cent; the British, 2.4 per cent; the Belgian, 1.75 per cent.

If, instead of using the average annual annuity, we should compare the present value of the settlements with the sum of these three indices—the total budget, the total foreign trade, and total national income for a year of each of these countries—the burden of the French settlement represents 15 per cent, the British settlement 11.7 per cent of this sum, the Belgian settlement 7 per cent, and the Italian settlement 8.58 per cent.

When discussing other debt settlements I have stressed the importance to America of the economic revival of Europe. When viewed as a market for the surplus products of our fields, our mines, and our industry, Europe must be taken as a whole. While the finances of its nations are closely related, each presents a distinct problem requiring individual treatment, but responsibility rests upon each nation to effect its own stabilization. Our efforts to that end during the past three years are known to all of you. We have concluded debt settlements with thirteen nations, among the larger being England, Italy, and Belgium.

France is the last of our large debtors. Her future is bright. She has been and is one of the great nations of the world. Her people are able, hard-working, and frugal. While the burden of the debt settlement is relatively light in the earlier years, it is heavy in the latter years.

To have imposed too heavy a burden at the outset would have rendered doubtful any subsequent payments.

The commission is confident that the settlement, giving due consideration to the ability of the debtor as well as to the rights of the creditor, is a just settlement, fair both to the American taxpayer and to the French people.

II. SETTLEMENT WITH THE KINGDOM OF THE SERBS, CROATS, AND SLOVENES

The other settlement which is now before Congress is the settlement with the Kingdom of the Serbs, Croats, and Slovenes. The amount of the indebtedness to be funded was calculated on the same basis as in the other debt settlements, at 4¼ per cent interest to December 15, 1922, and at 3 per cent interest thereafter until June 15, 1925, as of which date the debt is funded. The total to be funded, after allowing for a cash payment of $7,112.39 to adjust the amount to round figures, is $62,850,000. Of this amount $51,037,886.39 represents principal and $11,812,113.61 the accrued interest to the date of settlement.

Under the agreement Yugoslavia is to pay an annuity of $200,000 a year for the first five years, increasing $25,000 a year for the succeeding seven years. For the remaining fifty years payments on account of principal increase annually. Commencing with the thirteenth year interest is fixed at ⅛ of 1 per cent for three years; ½ of 1 per cent for the next fourteen years; 1 per cent for the next three years; 2 per cent for the next three years; and 3½ per cent for the last twenty-seven years of the debt-funding period.

The total payments to be received under the settlement are $95,177,635. The present value of the payments on a 4¼ per cent basis is $20,236,000, or about 32 per cent of the debt funded. On a 3 per cent basis the present value is $30,286,000, or about 59 per cent of the principal amount of the $51,000,000 Yugoslav debt.

The settlement is made on the basis of Yugoslavia's capacity to pay. Although the country received considerable additions of territory as a result of the war, it is relatively poor and its standard of living is much the lowest of any of our debtors. It is almost totally lacking in natural resources; its agriculture is poorly devel-

oped, and its industries are negligible. With the exception of 1924, its balance of trade in recent years has been adverse. The country was overrun and devastated several times during the war. The work of reconstruction has been carried on but slowly, the cost being met chiefly from German reparations. Railroad facilities, already inadequate, have been only temporarily restored. In an agricultural country without natural resources and lacking capital increase in wealth must necessarily be slow. The commission feels that the settlement arrived at is fair and just to both countries.

Memorandum of Secretary Mellon Concerning Foreign Governments Which Have Not Concluded Funding Agreements, and a Statement of the Accomplishments of the World War Foreign Debt Commission[18]

The work of the World War Foreign Debt Commission is practically completed. Settlements with thirteen governments have been concluded, eleven of which have been approved by Congress. France and Yugoslavia are now pending. The countries with which settlements have not been made are Armenia, Austria, Greece[19], Liberia *, Nicaragua, and Russia.

Armenia—There is no government in existence. The principal of the indebtedness amounts to $11,959,917.49, and the accrued and unpaid interest to $3,598,000.

Austria—Congress, by joint resolution of April 6, 1922, authorized the Secretary of the Treasury to extend the time of payment of both principal and interest for a period of twenty years. The time therefore, has been extended to June 1, 1943. The principal of the

[18] Submitted May 20, 1926.

[19] A debt funding agreement with Greece was signed December 5, 1927.

* Liberia paid its debt in full with interest, July 6, 1927.

indebtedness amounts to $24,055,708.92 and the accrued and unpaid interest to $7,938,000.

Greece †—The principal of the indebtedness now amounts to $15,000,000 and the accrued and unpaid interest to $3,375,000. Greece has raised a question regarding the balance of credits on the treasury books amounting to $33,000,000. Unless authorized to do so by Congress, no action will be taken by the Treasury to make the credits available to Greece. There probably will be no funding arrangement concluded with this government until the question of credits is settled.

Liberia *—The principal of this indebtedness amounts to only $26,000, and in addition about $8,000 accrued interest. No attempt has thus far been made to negotiate with this country regarding its indebtedness.

Nicaragua—The indebtedness of this government was incurred in connection with the purchase of supplies through the War and Navy Departments. The contract under which the purchases were made provided that the indebtedness should be liquidated by monthly installments. These monthly installments are now being paid and it is expected that the entire indebtedness will be fully repaid during the fiscal year 1927. The principal of the indebtedness now stands at $33,000.

Russia—The present régime has not been recognized by the United States government, and it is therefore impossible to negotiate regarding this indebtedness until recognition has been accorded to some Russian government. The principal of the indebtedness amounts to $192,601,297.37 and the accrued and unpaid interest to over $73,000,000.

The following is a list of countries which have concluded settlements, showing the amount of principal of the funded debt in each case, the amount that will be

† A debt funding agreement with Greece was signed December 5, 1927.
* Liberia paid its debt in full with interest, July 6, 1927.

received as interest over the entire period of the funding agreement, without regard to any options that have been or may be exercised by these governments, and the total of both principal and interest.

Country	Date of agreement	Funded principal	Interest to be received	Total
Belgium	Aug. 18, '25	$417,780,000	$310,050,500.00	$727,830,500.00
Czechoslovakia	Oct. 13, '25	115,000,000	[20] 197,811,433.88	312,811,433.88
Estonia	Oct. 28, '25	13,830,000	19,501,140.00	33,331,140.00
Finland	My. 1, '23	9,000,000	12,695,055.00	21,695,055.00
France	Apr. 29, '26	4,025,000,000	2,822,674,104.17	6,847,674,104.17
Great Britain	June 19, '23	4,600,000,000	6,505,965,000.00	11,105,965,000.00
Hungary	Apr. 25, '24	1,939,000	2,754,240.00	4,693,240.00
Italy	Nov. 14, '25	2,042,000,000	365,677,500.00	2,407,677,500.00
Latvia	Sept. 24, '25	5,775,000	8,183,635.00	13,958,635.00
Lithuania	Sept. 22, '24	6,030,000	8,501,940.00	14,531,940.00
Poland	Nov. 14, '24	178,560,000	257,127,550.00	435,687,550.00
Rumania	Dec. 4, '25	44,590,000	[20] 77,916,260.00	122,506,260.05
Yugoslavia	May 3, '26	62,850,000	32,327,635.00	95,177,635.00
Total		11,522,354,000	10,621,185,993.10	22,143,539,993.10

Press Statement of Secretary Mellon Comparing the British-French and American-French Debt Settlements

July 16, 1926.

The settlement of the French obligations to America has been made along somewhat different lines from the settlement of French obligations to Great Britain. With the British, banking advances and commercial obligations for war stocks have been treated separately from the war debt proper. If, however, we compare the settlement of all France's indebtedness to England with the settlement of her indebtedness to America, France has had generous treatment from us. Particularly is this true during the first years, which will be most difficult for France. The present Caillaux-Churchill settlement does not differ materially from the tentative Caillaux-Churchill agreement of last August, an analysis of which appears in the documents of the Caillaux negotiations with the American commission of September last, which was released to the press October 1, 1925.

[20] Includes deferred payments which will be funded into principal.

The American settlement with France embraces all of France's indebtedness, and represents in the opinion of the American commission France's capacity to pay. For obligations incurred by France to America after the war ended, France owes us today $1,655,000,000. The present value of the entire French-American settlement, at the rate of interest carried in France's existing obligations is $1,681,000,000. In effect, therefore, America has canceled the obligations of France for all advances during the war, and France in the Mellon-Berenger agreement has undertaken only to repay the advances and obligations subsequent to the armistice. No other creditor of France has accorded such generous treatment.

The Peabody-Mellon-Churchill Controversy over the Debts, July-August, 1926

letter to the president [21]

June 30, 1926.

The President of the United States, Washington, D.C.
Mr. President:

There is no more firmly established right under the laws and customs of the United States than that of a citizen, however humble, to petition the government for the redress of a grievance. I am such a citizen, American in every fibre and bone and drop of blood. For seven generations on my father's side and for seven generations on my mother's my ancestors have lived in America, a hundred and fifty years as American subjects of the British crown, a hundred and fifty years as American citizens. I am therefore qualified, am I not, to avail myself of the aforesaid right?

My grievance is briefly stated. It is this: America is being sold, betrayed, dishonored. By its own government, the nation is being made odious in the estimation of mankind, the object of universal hatred as a merciless

[21] From *International Conciliation,* May, 1927.

money-grabbing extortioner. Availing itself of a pure technicality, the government of the United States is exacting the payment of unthinkable sums of money from England, France, Belgium, and Italy for advances made to them upon our entrance of the late war and by our law declared to be "for the purpose of the more effectually providing for the national security and defence." To enable "the governments engaged in war with the enemies of the United States" to maintain their armies, to fight America's battles until we could prepare armies to do our own fighting, to stand between us and Germany, we advanced our late associates something like ten billions of dollars. Every dollar of it was for our benefit, we so stated at the time, and now we demand its repayment with eleven billion dollars more for time in which to pay.

Plainly expressed, my grievance is that the honor of my country is being bartered for twenty-one billion dollars, and I address this petition to my government for a redress of that grievance in the performance of the most solemn duty of American citizenship—the preservation of the nation from history's brand of shame.

Be patient with me, Mr. President, for I am a plain, blunt man, little skilled in the use of soft phrases. I can only speak right on, tell you that which you know full well, set forth the simple facts as they appear to simple men and bid them speak for me; but do not think that I stand alone, a solitary voice crying in the wilderness. By my side is every American who loves his country more than he loves money, is jealous of his country's reputation, holds his life of far less value than that most sacred of all things, his country's honor. And their name is legion. There are no hyphenates amongst them, no sympathizers with our late enemies. Aside from my own conviction, I know whereof I speak for I have on my desk assurance thereof from all parts of the country.

True, there are those who have said that I but waste my breath; that this nation is a nation of Mammon worshippers, that gold is their god, that they have but one absorbing passion—to get all the money they can for the gratification of every selfish desire. If I did not, in the depths of my soul, believe that to be a lie, I should indeed know that I but waste my breath.

Then, too, Mr. President, I have been told that you will not even read my petition. It may be so; but that does not discharge me from the obligation that presses upon my conscience and my heart. Others will read it, if you do not.

The World War began on August 1st, 1914, and ended on November 11th, 1918. For upwards of two years and a half it was waged without our participation. A hundred and more Americans were murdered by the Germans, when without warning, they sank the Lusitania. We resented it only by diplomatic notes couched in respectful terms. America witnessed the brutal rape of Belgium, but heeded not her protest—a failure on our part Theodore Roosevelt regarded "with horror." Our mother country and France, our saviour, were decimated by an unprovoked and ruthless Germany, and we remained "neutral even in thought." During the period of our neutrality, our manufacturers furnished supplies to the combatants at exorbitant rates, our national wealth mounted by leaps and bounds and our labor received large increases of wage. The United States uttered no word of sympathy, by not as much as a turn of the hand helped those whose cause we subsequently, by joining them, recognized as just. Our ultimate participation was inevitable; but nothing whatever was done to prepare for it and when our war declaration came in April, 1917, we were totally unready to put a man on the battle fields of France and it was more than a year thereafter before we had any share in the fighting.

Upon our entrance of the war, it was perfectly plain

to the government of the United States that, if we were not to be left to face Germany alone, our associates, Great Britain, France, Belgium and Italy must be maintained by us with all necessary supplies until we could join them in the field. The security and defence of the United States imperatively demanded it at whatever cost. The Allies needed it for their own interest, of course; but they needed it before we went into the war and only got it when it would be of benefit to the United States, when it became a matter of necessity to us, a legitimate, an inevitable war measure. There can be no two opinions about this, for the government of the United States so declared.

In his speech to Congress asking a declaration of war against Germany, the President definitely pledged "our lives and our fortunes, everything we are and everything we have" to its prosecution. He didn't suggest loans for our defence to be repaid with interest. He committed America to the contribution of everything we had to the winning of the war, and Congress promptly proceeded to carry out his pledge.

In little more than a week thereafter, Congress voted to make the war supplies that had accumulated in the country available to the Allies, as law put it, "to the governments engaged in war with the enemies of the United States." This act of the national legislature providing for the establishment of credits in favor of "the governments engaged in war with the enemies of the United States" opened with words that should be known to every citizen as well as they are known to you and to me. But for them, this petition would not be sent to you. These words (would that they might be blazed across the sky!) were: *"For the purpose of more effectually providing for the national security and defence and for prosecuting the war."*

How could anything be plainer than that? The credits were established and some nine billions and a half

of dollars were advanced to our associates in the war, solely and only the more effectually to provide for the security and defence of the United States; in other words, to enable the war-weary Allies to prosecute the war alone against the enemies of the United States until we could join them, and thus save us from having to fight Germany without allies, or crawl on our knees at her feet.

It was our bounden and officially avowed duty thus to defend America, as well as our only way possible for upwards of a year after we entered the war. And America performed her duty as became America. She poured out money like water. While her associates were holding the trenches with men, America was helping them with money. All that was done in battle during the first year of our war with Germany to save us from the catastrophe of having to stand against her alone was done by Great Britain and Belgium and France and Italy. All the blood shed was British and Belgian and French and Italian blood, not a drop of it was American. Our money was used both for them and for us; and their blood was shed for us and for themselves.

Has it ever occured to you, Mr. President, to estimate the value in dollars and cents of the lives saved to America by our non-participation in the fighting for more than a year, actually for five-sixths of our war period? As I think it has not, I will give you the estimate of an expert. In a letter in the *New York Times* of April 3rd, I said: "We have heard much about what our Allies owe us, but who has said anything about what we owe them?" An answer to that query is before me. It is from an active colonel of our regular army, who was in service in France. He says:

I feel sure that you did "express the sentiments of countless Americans to whom the dishonor of America is as personal dishonor" and who resent the actions of those who are placing us in the category of the Shylock. You ask very rightly what we owe our Allies. To this question I reply by sub-

mitting from memory a few figures and data of what might justly be considered our debts to our Allies, as follows: Total time in war April 6, 1917 to November 11, 1918, 19 months, 5 days.

While we were represented in the fighting prior to September 12, 1918 in several engagements, by units in size from a regiment to a division, we did not take a man's part in the fighting until September 12, 1918, when we, with allied assistance, took the St. Michael salient.

It therefore seems that we do ourselves full justice when we say we did a man's share of the fighting for the last three months of the war. For the sake of easy computation, however, let us say we took a full part in the fighting one-sixth of the full period of nineteen months, five days, which is quite a bit more than we can justly claim.

Then, for one-sixth of the war period our losses were approximately: killed, 50,000; wounded, 210,000. Placing a value of $50,000 on each young man we lost, our life cost expressed in money was two and a half billions of dollars.

According to a report of the Medical Department, United States Army, the cost to the government of those wounded during the same period of our activity was, up to June 30, 1925, just over three billions of dollars. So the total cost of killed and wounded was five billion and a half dollars, disregarding the continuing cost of the wounded.

Since the enemy was on the run during the greater part of the period of our active participation in the fighting, it is fair to assume that our losses per month were less than they would have been the first five-sixths of the time and before the enemy had broken. To be conservative, however, let us assume that they would have been the same. Then our losses, in men killed, would have been three hundred thousand, and, in wounded, a million two hundred thousand—or, expressed in money, thirty-three billions of dollars. The saving to us, due to our Allies doing our fighting for five-sixths of our war time, is therefore twenty-seven and a half billions of dollars.

So it appears, Mr. President, according to this army expert, that our debt to our Allies is upwards of twenty-seven and a half billion dollars, three times the amount of the credits accorded them by us, not to mention what we owe them for having saved us in averting a contest between the United States and her enemies alone.

Now doesn't it appear to you, as it does to me, to be a monstrous thing to demand the return of the advances made for our own benefit to our Allies with more than 100 per cent additional we call interest, and to

ignore our monumental obligation to them, for which they ask nothing?

For obvious reasons the name of my army correspondent cannot be disclosed; but I may give you the name of another army officer, in calling your attention to what he thinks about these alleged debts. In a speech at Denver in August, 1924, the Commander-in-Chief of the American armies in France said:

> What was the situation in 1917? We had no plan, no preparation, no artillery, no transportation, no ships, in fact nothing.
>
> If it had not been that the Allies were able to hold the lines for fifteen months after we had entered the war, hold them with the support of loans we made, the war might well have been lost. We scarcely realize what those loans meant to them and to us.
>
> While I am on the subject, I want to say something I have never said in a public address before.
>
> It seems to me there is some middle ground where we should bear a certain part of the expense of maintaining the allied armies on the front, while we were preparing, instead of calling all the money a loan and insisting on its payment.
>
> We were responsible. We gave the money knowing it would be used to hold the Boches until we could prepare. Fifteen months! Think of it! We sent our first men in June and they were not ready to go into the front lines until the following year.

What support, Mr. President, does the government derive from this bravely uttered judgment of General John J. Pershing? Would that he might tell us, even more candidly, what he feels deep down in his heart.

The government of the United States has no right to demand repayment upon the present technically, a naked promise. It would seem that somebody in authority took advantage of the great need of our associates to require of them a promise to repay money advanced for our security and defense, and that, God knows, was so used. It was a mean and un-American thing under such circumstances, and in any court of morals, before any tribunal of honor, yes, as justice is administered between man and man, in any court of law the United States would have no standing whatever. You and I, as

lawyers, know that an agreement made without consideration is of no effect. As I have shown, and shall further show, the Allies gave full value for the money they received and the agreement to repay is void for want of consideration. What man of fair mind and honorable instincts can say that the United States government has not enacted the rôle of a cruel and harsh extortioner in the matter of these so-called debts?

The money functioned for us at first precisely as our soldiers did afterward, both for the security and defence of the United States, and both for the prosecution of the war. With precisely as much justice might we demand indemnity for the whole cost of our military establishment; both were in the same sense legitimate war costs. Was it an oversight that such a demand was not made? Wasn't there any ground, however technical, upon which such a demand might have been based? How greatly must those, who have been pluming themselves over the negotiation of the funding agreements, regret that there wasn't even the shadow of a right upon which a demand for all the cost of the war might be based.

Let us glance in turn at the case of England, of Belgium, of France, of Italy.

Englishmen or men of English stock, of your stock as of mine, established this government. And it was a German king of England, over the protest of the greatest Englishmen of his time, who sought to hold the colonies in subjection. We and the English are of one blood, speak the same language, cherish the same far-away traditions, glory in the same literature, and, by our adoption, have fundamentally the same law. England and America should be close and trustful friends. Together, the great British Empire and the great American Republic could easily ensure perpetual peace to the world. How have we treated England?

England (meaning Great Britain) loaned her Allies

something like ten billion dollars, but not as a substitute for men. Upon the invasion of Belgium, she entered the war with her armies, and, before the awful death list made conscription necessary, enlisted four million volunteers. England did that—loaned ten billion dollars, recruited four million volunteers.

As a substitute for men, we advanced England something more than four billions, under the law authorizing its payment for our security and defence. While her young men were dying by the hundred thousand in the trenches, fighting our fight as much as their own for more than a year, the war was not costing us a man. We did what we could. We helped England keep her soldiers in fighting trim by furnishing money for supplies produced in America. England asks nothing for her dead. We demand repayment of our money, with interest. We are the richest nation the world has ever known. England is embarrassed as never before. With a million unemployed, she carries a huge burden of debt and has resorted to a taxation almost confiscatory. America taxes an income of $5,000 but $37.50; England taxes it $787. She is dependent for her revenue upon her trade and our tariff wall practically excludes her from trade with us. Nothing is undamaged, but her honor; nothing unshaken but the unshakable steadiness of her soul. And yet we, the Croesus-nation, demand of struggling, staggering England, not only the four billions we let her have, but an additional seven billions because she must have time in which to pay. Because she is in trouble, we charge her seven billion dollars for time. We have no moral right to a farthing from England, but she signed and we hold her to her signature.

Mr. President, what do you, as a man, think of the way we have treated England? What I think of it is of no consequence. What is of consequence is what the world thinks of it, what America thinks of it, what posterity, what history will think of it. It may be that,

in time, language will contain words that will adequately characterize it. They are wanting in my vocabulary.

England proposed cancellation of all war debts at a net cost to her of six billion dollars, inasmuch as the nations owe her that amount over and above what she is said to owe us. We declined the proposal and demand the uttermost farthing; and England now agrees to forgive her debtors all they owe her in excess of the amount we require of her. A striking contrast, that.

Take Belgium—you remember how the world held its breath when Germany, unprovoked and in violation of her guarantee of Belgian neutrality, thundered into Belgium, laid her cities waste, massacred her civilians, all but annihilated her little army and swept the remnant over into France. Belgium might have bought immunity at the cost of honor. That was not Belgium's way. She was in honor bound to resist the encroachment upon her neutrality, to stand on her own soil beween Germany and France. She was not even tempted to save herself. She preserved her honor intact. She stood her ground until the German monster crushed her.

Belgium is a tiny kingdom, a quarter of the size of New York and with a population about two-thirds as large. We made the same kind of advances to Belgium as to England and we furnished her starving people with food. Belgium also signed, and we have called her attention to her signature and demanded repayment for the food as well as credits.

With a greatly reduced man power, Belgium has been struggling to rebuild her ruined cities. Her taxation is excessive. Incomes of \$5,000 pay \$620, instead of \$37.50 as here; but she is great of heart and endures. All the other nations have forgiven her debt to them. Only the United States insists upon payment, although President Wilson joined with the other powers in the agreement not to ask Belgium to pay. We demand payment of every dollar for food and advances to little Bel-

gium; and, because she is pitiably poor and must have time, we make her pay for it. The food and advances totalled (in round numbers) three hundred and seventy-seven millions. We exact every cent of it and charge her an additional three hundred and fifty million for time—in all seven hundred and twenty-eight million dollars, the equivalent of a hundred dollars for every man, woman and child in the kingdom. The other nations forgive her eight hundred millions of principal. Another contrast, not exactly pleasing to contemplate.

How is it possible, unless the American people are the most detestable people on the face of the earth for the government of the United States to justify such a performance as expressing the will of the people? It is a baseless assumption, and the action of the government is a hideous perversion of the popular will.

Then there is France, Mr. President. France that came to our assistance when our struggle for national existence was all but lost. Washington himself was almost in despair. "We are at the end of our tether," he said, "and now or never our deliverance must come."

Deliverance came—and from France. Across the ocean she sent us large sums of money, as gifts and as loans, and she sent armies and ships of war. France saved America. There is no controversy about that. Yorktown was captured and Cornwallis surrendered because Washington had under his command more French sailors and soldiers, than Americans; and it was Washington who declared that America would cherish "unalterable gratitude" to France.

How has our "unalterable gratitude" been shown by the government of the United States?

France, too, obtained credits from us upon our entrance of the war, and they were for the same legally declared purpose, the more effectual national security and defence; and France also appended her signature to the bond. The United States, through its constituted au-

thorities, has demanded repayment. France is dreadfully poor and heavily taxed, incomes of $5,000 paying $839 instead of our $37.50. Her war debt is enormous and to it has been added a debt of many billions for the rebuilding of the regions devastated by German cannon. Struggling bravely to keep herself financially above water, the United States adds to her burden a weight well calculated to sink her. Of all the great European combatants in the war, France is the greatest sufferer and Germany the least.

We are literally glutted with wealth, far richer than any other nation has ever been in all the history of the world; and, with positively threatening aspect, we point to France's signature and demand that she pay.

While America was putting only money into French battlefields, France was holding Germany, as was England, at the cost of hundreds of thousands of her young men. When America had not one man in the French trenches, France was raising a barrier of her slain sons over which Imperial Germany had not the might to pass. A barrier for France, do you say? Yes, a barrier for France and a barrier for the United States of America. Had Germany passed that barrier of French dead and trampled France beneath her feet, she would have triumphed over all but the United States, and America would have been left to continue the war alone. Visualize that, Mr. President, and you will realize what France did for America. And now, Almighty God! we demand of France the return of every dollar we gave her and penalize her for time in which to pay. Where is Washington's "unalterable gratitude?" Where is the common decency that dwells in the heart of the ordinarily decent man? O shame, where is thy blush?

In morals, in justice, in law, France doesn't owe us one centime, one-fifth of a cent, and we owe her for a second "deliverance," a second salvation. She got nothing but what our government declared to be for the

security and defence of this nation. According to Colonel ———, France with England and Belgium saved us a quarter of a million lives and a million wounded—expressed in money, twenty-seven and a half billions of dollars. All the wealth of the world could not pay her for what she did for us—and she asks nothing; while we demand of France repayment of three billion and a half dollars we gave her in place of men and, because she can't put her hand on the amount and pay spot cash, an additional three billion and a half for time.

I am altogether at a loss for words to characterize that action by the government of my country. The first man to occupy the office you now hold, Mr. President, had a forceful way of expressing himself on occasions. Washington knew of our earlier debt to France (now many times magnified) and he loved Lafayette, he said, as if he were his own son. If the grave of Washington could speak aloud to the grave of Lafayette, the thunder of its damnation of our treatment of France would resound throughout America and echo around the world.

The same thing is true of Italy. The financial condition of Italy may be judged from the wage of a dollar and a quarter a day paid her skilled labor compared with ten and twelve dollars paid here, and her tax of $1,025 on an income of $5,000 compared with ours of $37.50. Italy is a nation of the very poor and we are a nation of the very rich. For effectually providing for our national security and defence we advanced poor Italy, who also signed on the dotted line, a billion six hundred and forty-seven thousand dollars. We insist upon its repayment and, because it is impossible for her to pay at once, we charge her three-quarters of a billion in addition—for time.

Now then, for the totals: We advanced these four governments engaged in war with the enemies of the United States something less than nine and a half billion

dollars and, upon a pure technicality, have demanded and they have agreed to pay not only the principal sum, but upwards of eleven billions for *nothing but time*—the total exaction by the United States from its late war associates and friends being over twenty-one billions of dollars—a billion more than the amount of our national debt.

These four nations have been looking to German reparation payments to recover some of their war costs. Especially has France counted upon them for the expense of rebuilding her devastated regions; but our demands will annually take about 60 per cent of the German payments, if made. Much more than half of what a defeated Germany hands over to her former enemies to indemnify them for destruction wrought by German guns in an aggressive and unprovoked war, our government intends to take from its war associates for a part of the cost of keeping their soldiers fit to fight "the enemies of the United States" for our "security" and to die in our "defence." The German payments cease after thirty-five years; those of our friends continued for twenty-seven years thereafter and, in the end, we shall have exacted more than the total of German reparations. They, especially France, have begged that we make their payments to us dependent upon their collections from Germany. We have refused and insisted upon prompt payment according to the bond whether Germany pays or not. In the case of France, what an exhibition of America's conception of "unalterable gratitude!"

I am addressing the President of the United States and want to maintain an attitude of courtesy as becomes a citizen in addressing his President. I may not say to you just what I should say to Calvin Coolidge, were he, like me, a private citizen of the Commonwealth of Massachusetts; but were he such a citizen, I should not hesitate to say to him that the cruelty of the government of the United States in this matter seems to me absolutely barbaric, its greed to attain proportions that may fitly be called infinite.

When these incalculable sums have been paid (which Heaven forbid), how will it leave the United States? What will this nation be able to say it did for the prosecution of the war for the first fifteen months of our participation? Nothing. Our associates will have prosecuted the war, fought our battles, saved a quarter of a million American lives and a million American wounded or, expressed in money, twenty-seven and a half billion dollars, and averted a contest between the United States and Germany alone—and they will have done all this without the help of a man or a dollar from us.

In all sincerity, it seems to me America is more to be commiserated than our late associates; for they have only assumed unjust obligations of monstrous proportions, while the United States has made a cheap sacrifice of its honor. What a trivial price for a nation's honor —twenty-one billions!

Can the United States afford to be wholly indifferent to the judgment of the world? A competent observer, who has visited Europe every year since the war, says that all the local hatreds have been combined in one "grand hatred" of America. A lady living at Nice writes me that she has frequently seen French peasants spit at the mention of America, that we are called "the hogs' country" and that at a dinner recently attended by distinguished guests it was said that "if the world could be pictured as a mammoth body, America would be its stomach." The well-known American publicist, Mr. Frank H. Simonds, publicly declared, only a few days ago, that "one of the two outstanding circumstances of Europe today is the rapid development of a common European dislike and worse of the United States, from Land's End to the Golden Horn," and he adds, "If I for one moment believed the debt settlements which have been made would last, would be carried out for even a decade, I should regard the European feeling with real alarm."

Alarm, Mr. President? Why alarm? Because the unconscionable settlements, naturally and inevitably

breeding hatred, which is the hotbed of war, will drag us or our children into another Armageddon in which alone we shall face a hostile world! What nation, staggering under the unrighteous burden we have placed upon it, would, or could, help us? We are a friendless people and our destruction would be the salvation of our debtors.

But the government of the United States is not wholly without applause. Germany applauds. Our late enemy cordially approves our treatment of our late friends. The heavier the burden we place upon England and France, the more profound will be the satisfaction, in Germany; and, if the funding agreements shake England to her foundations, if they sink France into hopeless bankruptcy, Germany and Germans, wherever they may be scattered over the face of the earth, will shout aloud and clap their hands for joy.

And for all of this, America has to thank the Congress of the United States. Its members well know its action to be morally indefensible; know that every dollar of the money advanced to our associates was advanced for our own benefit and used for our benefit and that it benefited us incalculably. When the measure providing for these advances was being discussed in Congress, leading representatives and senators loudly proclaimed them to be solely for the security and defence of the United States as declared in the law itself. Let me remind you of some of these utterances.

Senator McCumber, chairman of the finance committee, said:

> It is probably true that more than a quarter of a million men are going down to death or being wounded or captured, every month during the contest. Therefore while they are suffering to that extent we ought to be mighty liberal in the expenditure of money when we can take no part in the real battle, which today is the battle of the American people.

While our associates were suffering so in "the battle of the American people," we were suffering not at all—

contributing money only to enable them to continue to fight that battle. Now we demand the return of the money.

Senator Smoot said:

> I think that every dollar that will be expended under the provisions of this bill, if it is expended honestly, will be for the benefit of the United States.

And we demand the return of every dollar so expended for "the benefit of the United States" and eleven billion dollars additional for time.

Senator Kenyon said:

> I want to say this for myself that I hope one of these loans, if we make it, will never be paid and that we will never ask that it be paid. We owe more to the Republic of France for what it has done for us than we can ever repay. I never want to see this government ask France to return the loan we may make to her.

If this distinguished senator of 1917 were in the Senate today, he'd see this government demanding not only the principal of the sum advanced to France, but three billion and a half dollars interest upon it.

Senator Cummings said:

> I am perfectly willing to give to any of the allied nations the money which they need to carry on our war, for it is now our war. I would give it just as freely as I would vote to equip our army or to maintain our own navy.

We equipped other armies "to carry on our war," because we didn't have armies of our own to do it, and now we demand a return of the money for that equipment.

Congressman Mann said:

> I think it is our highest duty in the making of war to give aid to those who are fighting the enemy against whom we have declared war.

Wherever and whenever such a thing could be done in the wars of history, it has been done; but the history of the world will be searched in vain for any other de-

mand by a government for the return of money given an Ally to do the fighting for it. The distinction is exclusively ours.

Congressman Fordney said:

> Their [the advances] only purpose is to aid them in the best way possible to fight our battles across the sea without calling upon our men to go there.

And now we demand the return of every gun, every shell, every rifle, every bullet, every reel of barbed wire, every gallon of oil and bushel of oats and barrel of flour we gave our associates so that they might continue to "fight our battles across the sea," or their equivalent in cash plus interest.

Congressman Mondell said:

> We can [by the advances] effectively and in the immediate future, arm, strengthen and support those who are, since our declaration of war, fighting our battles.

And for the cost of arming and strengthening and supporting our friends to fight our battles we want payment in full, doubled.

Congressman Rainey said:

> We are making this loan in order to further our interests primarily in this war, and from the moment when the Congress of the United States declared that a state of war existed between this country and Germany, every blow struck at Germany by any of her enemies was struck also in our interest.

And this same congressman filed a minority report in the House of Representatives protesting that seven billion was not enough to wring out of France in payment for the weapon we put into her hands and with which she struck Germany "in our interest."

Congressman Madden said:

> We are starting out to win a victory, as I understand it, to maintain American rights; and if we can maintain American rights by furnishing money to somebody willing to fight our battles until we are prepared to fight those battles for ourselves, we ought to do it.

The victory was won, only because somebody was willing and, by our money was enabled, to fight our battles for five-sixths of our period in the war; and now we demand the money back, reimbursement for having done nothing but our plain duty, but make no offer to return hundreds of thousands of somebodies' sons killed in what these eminent senators and congressmen declared to be our battles in our war.

You are a Christian, Mr. President, and have recently declared this government to be founded upon religion. You can mean only the Christian religion. May I most respectfully ask what Christian consideration entered into the funding agreements? what sanction they, in your opinion, derive from any teaching of Christ? You are silent.

One of the most beautiful passages in the recorded utterances of Christ is this.

> When the Son of Man shall come in his glory and all the holy angels with him, then shall he sit upon the throne of his glory, and before him shall be gathered all nations, and he shall separate them one from another as a shepherd divideth his sheep from the goats. And he shall set the sheep on his right hand and the goats on his left.

And what is it that, in that day, Christ shall say to those on his left hand, because they were without charity, without sympathy, without concern for suffering humanity, because they were wholly selfish and had no regard for right and duty and justice? It is recorded that he shall say to them: "Depart from me, ye cursed." And where, unless it repent, in that day of judgment shall he set this nation, if not at his left hand?

What mandate has your administration received from the people of the United States to do the things you have done? Upon what authority has your government assumed so to act for them? What better right have you to assume that the government has truly represented them in the matter, than I have to assume that the gov-

ernment has misrepresented them shamefully? The difference between your assumption and mine is this: yours takes it for granted that money is America's god; that we are a nation of money-grabbers, without conscience, gratitude, loyalty, magnanimity, justice or honor: while mine is based upon the ineradicable, the burning conviction that Americans are just and generous and loyal and of one mind in the belief that it profiteth a nation nothing to gain the whole world and lose its own soul.

You have my grievance, Mr. President, set forth as clearly as my poor abilities permit; and the redress I ask, nay, demand, is cancellation of every dollar and cent of debt arising out of advances to those governments engaged in war with the enemies of the United States, for the security and defence of this nation. I ask, I demand, it on behalf of myself and every American who loves his country and has in his breast a spark of honor.

Once to every man and nation comes the moment to decide,
In the strife of truth with falsehood for the good or evil side.

That moment for this nation, Mr. President, is now. Now must America choose whether it will serve God or Mammon. Both it cannot serve. If it choose God, by exalting honor above money, magnanimity above greed, Americanism above commercialism, the Samaritan above the pawnbroker, then shall the glorious flag of the republic again float unstained in the air, every star resplendent, every stripe redignified, reglorified. The whole world will look upon it with respect bordering upon reverence and thankfulness amounting to love.

If it choose Mammon, Mr. President, if it sacrifice the world's respect and good-will for gain, if it barter the nation's honor for twenty-one billions or twenty-one trillions of dollars, wherever it circulates the eyes of the world will see only the face of Shylock upon the nation's coin, and, wherever it floats, only dollar signs where the

stars glitter in the nation's flag, and, in place of its stripes of red, yellow bars of gold.

May the just God, who presides over the destiny of nations, arouse the lovers of America to demand and procure the *cancellation of every dollar said to be due us for money advanced to "the governments engaged in war with the enemies of the United States"* for the *"purpose of more effectually providing for the national security and defence."* So shall they vindicate the honor of America in the august tribunal of world-opinion.

I have the honor to be, Mr. President,

Your most obedient servant,

FREDERICK W. PEABODY.[22]

LETTER FROM SECRETARY MELLON REPLYING TO MR. FREDERICK W. PEABODY'S LETTER TO THE PRESIDENT

JULY 14, 1926.

DEAR SIR:

By reference from the President, I have your letter of June 30, 1926, urging cancellation by the United States of the so-called war debts. Your arguments are confused, but I believe your points can be fairly summarized as follows:

1. As a legal proposition, taking into account the message of President Wilson, the debates in Congress, and the first Liberty Loan Act authorizing advances to our Allies, the United States made a gift and not a loan and neither party expected repayment.

2. As an equitable proposition, advances were made while the Allies were fighting our battle for us and before we could put an adequate military force in the field, and, therefore, the loans represent part of the cost to us of the war and should be canceled.

3. As a charitable proposition, America being wealthy and prosperous and the European countries be-

[22] Counsellor-at-Law, Ashburnham, Massachusetts, member of the Bar of New York, Massachusetts, California.

ing poor and heavily taxed, we should, in the interest of humanity, cancel the debts.

The initial authority for the advances to foreign governments occurs in the first Liberty Loan Act, passed just after we declared war. As a lawyer, you know that the interpretation of legislation unambiguous on its face is determined from its language and not from expressions in debates on the floor of Congress. But even ignoring this rule of construction, a reading of President Wilson's message and of the debates shows no ground for your arguments. The most that can be said of any expression you quote is a willingness on the part of the speaker to make the loans even if our debtors may not be good risks. This is far from an intention to make a gift of the advances. Let us, however, consider the Act itself. The law is declared to be "for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments." A reading of section 2 is convincing that loans and not subsidies were intended. The United States is authorized to purchase at par the obligations of foreign governments. As to rate of interest and other essentials the foreign governments' obligations are to have the same terms and conditions as United States obligations (Liberty Bonds) issued under the authority of the Act. Arrangements are to be made for purchasing the foreign government obligations and for the subsequent payment thereof before maturity. If United States bonds are converted into bonds bearing a higher interest rate, the obligations of foreign governments are likewise to be converted. In section 3 of the same Act the Secretary of the Treasury is authorized to receive on or before maturity payment of the foreign government obligations; to sell the obligations at not less than the purchase price, and to apply the proceeds of any payments made on account of the obligations to the retire-

ment of the debt of the United States. It is clear that when the advances were made to our Allies they knew and we knew they were loans, not gifts. From the time of the original advances to date no responsible authority in the United States government has suggested cancellation, and each of our debtor nations, except Russia, has recognized the debt created by the advances and has offered to pay. The only question for discussion in each settlement has been the extent of the capacity of the debtor to make payment of an acknowledged liability.

Your second proposition is that the Allies held the line with men until we could deliver an army and, therefore, cash advances made during this period by the United States were our contribution to the general cause of the war and should be canceled. I shall not dispute with you the exact date when we became an effective force on the western front nor as to the time or extent of our service at sea. We will assume America, as you infer, contributed nothing military or naval to the common cause but only gave financial support. Even then you will have to admit that advances made to our Allies after the armistice, when the war was over, cannot be considered as a contribution pending effective entry into battle or as saving American lives. We can eliminate at once, therefore, loans made entirely after the armistice to Finland, Estonia, Latvia, Lithuania, Poland, Czechoslovakia, Hungary, Austria, Armenia, and Rumania. The Allies to which we did make advances while the war was on are England, France, Italy, Belgium, Serbia, and Russia. As the figures I shall give will show, if we admit your argument is sound, England alone is concerned.

The debt settlements have been negotiated on the basis of the capacity of the particular debtor to pay. None could pay its signed obligations as called for by their terms. Accordingly, payment of the principal had to be extended and the period of sixty-two years set in

the British agreement has been followed in all other agreements. If the debtor nation paid the United States a rate of interest on the postponed installments equivalent to the cost of money to us, we would receive in present value payment of the full debt. Since, however, such an interest rate is beyond the capacity of any of our debtors to pay, the United States has, of necessity, accepted less than the full value of the debt to the extent the interest to be received under the settlement is below the cost of money to the United States, now about 4¼ per cent. Looking at the matter from the standpoint of the debtor nation, the debtor has received a concession in its debt to the extent the interest to be paid by it is below the cost of money to the debtor. The obligations taken by us from our debtors carry the interest rate of 5 per cent per annum. Since this rate is less than most of the debtor nations now have to pay for money, the rate of 5 per cent is certainly a fair measure of the real burden put upon them by the settlements.

Let us see what relation the burden of our debt settlements bears to our loans after the armistice. In this way we can determine accurately our real contribution in money to the joint cause of the war. In the case of England, postarmistice advances with interest amounted to $660,000,000, and the present value of the entire debt settlement is $3,297,000,000. It must be remembered that England borrowed a large proportion of its debts to us for purely commercial as distinguished from war purposes—to meet its commercial obligations maturing in America, to furnish India with silver, to buy food to be resold to its civilian population, and to maintain exchange. Our loans to England were not so much to provide war supplies as to furnish sterling for home and foreign needs and to save England from borrowing from its own people.

France's after-the-war indebtedness with interest amounts to $1,655,000,000. The settlement negotiated

by Ambassador Bérenger with the American Debt Funding Commission has a present value of $1,681,000,000.

Belgium's postarmistice borrowings with interest were $258,000,000, and the present value of the settlement is $192,000,000. In addition, Belgium has a share of the German reparations sufficient to pay her prearmistice debt to America.

With Italy the situation is similar. Its postarmistice indebtedness with interest is $800,000,000 and the present value of its debt settlement is $426,000,000. It is the same as regards Serbia. In view of these facts, in what respect do you still believe America has been unfair to its Allies?

The statement is made in your letter that the French debt settlement takes annually about 60 per cent of the German reparation payments which France is to receive. I believe you are not correctly informed. France, in addition to reparations already received from Germany, is to be paid under the Dawes plan 52 per cent of the maximum reached three years from now of 2,500,000,000 gold marks ($625,000,000) after certain charges, about $300,000,000 annually. The maximum annual payment required of France under our settlement is $125,000,000, reached after the sixteenth year. I think you will find that the reparations receivable from Germany by Belgium, France, and Italy are more than the payments those nations have agreed to make on their indebtedness to both the United States and to England.

I now come to your third proposition: That to preserve our self-respect and retain the affection of foreign nations for America we must as a charity cancel the debts. A creditor is never popular, but a debtor without credit is not in an enviable position. England's prompt and courageous attitude when first of all others it sought a settlement of its debt seems to me to have been rewarded in her present sound financial position, a rock in the turbulent seas of monetary instability now wash-

ing over the other allied nations. Are you so sure that your policy of cancellation will mean a happier future for a world which will only continue to trust those who keep a promise once made?

When cancellation of debts is viewed from the standpoint of the United States you fail to recognize that the debt commission, the President, and the Congress act not in their individual capacities according to sentiment but as trustees for those whom they represent, the American people. If these foreign debts are canceled the United States is not released from its obligation to pay the very bonds which were sold to our citizens to make the advances to the foreign governments. We must collect through taxation from our people if our debtors do not pay to us what they can. You call this a "specious reason," but nevertheless, again as a lawyer, you must know the duty of a trustee. Were these trustees as certain as you seem to be that their cestui qui trust the American people, demand a cancellation of the debts, it is within the province of popular government to carry out that mandate. But neither generally from the people, nor in the press, nor at all from the chosen representatives of the people in Congress has come this demand.

I have, as have you and every other good citizen, a profound sympathy for the countries suffering from the after results of the Great War which we in America have to a large extent escaped. But I feel that a recognition of their external obligations by the European nations and an undertaking bravely to meet them within their capacity as each country has done is a moral force of great service to permanent prosperity in the world. I cannot agree with you that England is on the edge of destruction. It is most sound of heart, as its recent solution of a general strike has shown to all. Other countries are in monetary difficulties, but the very acuteness of the disease has brought a clear understanding of the

causes and of the proper remedies. Dark as the financial sky now appears, I believe Europe is today closer to a permanent sound solution of its economic troubles than at any time since the war. The danger is there, but with it the courage to fight. I do not despair of Europe.

Very truly yours,

A. W. MELLON,
Secretary of the Treasury.

FREDERICK W. PEABODY, ESQ.,
Counselor at Law, Ashburnham, Mass.

SECRETARY MELLON'S STATEMENT ON ALLIED DEBTS WAS CRITICISED IN BRITISH HOUSE OF COMMONS BY WINSTON CHURCHILL AND HILTON YOUNG

Answering that part of the letter of Secretary of the Treasury Mellon to Frederick W. Peabody dealing with the British war debt to the United States, the British Chancellor of the Exchequer, Winston Churchill, in addressing the House of Commons on July 19 said that:

On the morrow of the Great War and the great victory, when President Wilson first came over to Europe and comradelike sentiments were in all the breasts of the allied nations there was an opportunity to plead for the principle of equality of sacrifice which would take into consideration not only the money spent but the blood that had been shed, and also on the other side of the account the territory which had been obtained. But now that time has gone and Britain has settled her debt with the United States.

I do not think that it is any use for indulging in recriminations with the people or with the newspapers of the United States over the agreement which we made, but I must refer to a statement which is attributed to Mr. Mellon, Secretary of the Treasury of the United States, in the newspapers this morning, because I think it would be a great pity if a misunderstanding should arise on these points.

Mr. Mellon is reported to have said, in a statement which I understand was a written statement, "It must be remembered that England borrowed a large proportion of her debt for purely commercial as distinguished from war purposes, to meet commercial obligations maturing in America, to furnish India with silver, to buy food to resell to the civilian population, in

order to maintain exchange. American loans to England were not so much to provide war supplies as to furnish sterling for home and foreign needs, and to save England from borrowing from her own people."

There really is a complete misapprehension of the facts of the case, and so serious is this misapprehension that it makes me almost doubt the authenticity of the passage which I quote. But what are the facts? We are only dealing with the period after the United States came into the war. There were no loans before then between the governments.

Britain, like all the other Allies, spent vast sums of money in the United States on food as well as on shot and shell, but all the loans of the United States to the Allies were, by Act of Congress, specifically limited to the purpose of prosecuting the war. That was the language of the Act of Congress, and the United States Treasury required and obtained full justification for every cent that was lent. Every cent was spent under the supervision of the United States Treasury in what was—according to their view, not ours—a furtherance and prosecution of the war, and every cent was spent in the United States.

Between 1917 and the end of the war—that is, during the period of America's intervention—we spent over $7,000,000,000 in the United States and of that sum we borrowed $4,000,000,000 and we provided $3,000,000,000 additional, spent in the United States, from our own and other resources. Against the $4,000,000,000 that we borrowed we spent over $1,500,000,000 on munitions and over $2,500,000,000 on cereals and other essential foodstuffs, so that on these two heads alone we spent a sum which equals the whole sum that we borrowed from the United States.

As to the special instances cited by the distinguished foreign statesman whose name I have mentioned, there again, it seems he has been either misreported or misled. We spent on commercial maturities during this same period $354,000,000 out of a total of $7,200,000,000 which we borrowed or provided from our own resources, or rather less than one-twentieth of the total dollar expenditure for which we were responsible.

As to the silver loan for India which is referred to, that, as every one knows, was treated quite separately from the war debt and was fully repaid by this country in 1923.

I hope I shall not be thought to have been wrong in stating these facts, because, while there is certainly a good deal of ill-feeling and resentment about all these questions connected with the repayment of the war debts, it is very important that that resentment should not be increased by any misunderstanding of what are the actual facts of the situation.

I speak for myself when I say I think we ought not to be discontented with the general situation, nor with the general policy which guided this country in relation to the European debts. It is the old, traditional policy of Britain, and it is

based on a very long view of the future of Europe, and of our country in relation to Europe. Let us have some trust in time, and give time a chance to do its work, not only in the Old World but in the New.

Let us so act that time will be upon the side of easier and wiser solutions than have yet been reached, and that yet exist in the world in respect of war debt payments, and let us have confidence in the teaching of facts in the lessons of experience, which over a long period of years are certain, in my judgment, to produce immense alleviations of the situation which at the present time presses with iron severity on the war-racked nations of Europe.

Mr. Lloyd George said he had been induced to take part in the debate because an attack was made upon him by Mr, Churchill in saying he had it in his power to bring about a settlement of the debt question when former President Wilson came to Europe and afterward.

"I did, in fact, approach President Wilson at the time, but Mr. Wilson did not think he was in a position to enter into the subject, as there was to be an immediate Presidential election and he had already had more than he could carry," Mr. Lloyd George said.

He continued that the funding of the debt to America had been a great mistake, and had been done against the advice of the Prime Minister at the time, Bonar Law.

A bad bargain had been made with France. France was paying America 49 per cent of her debt, but would pay Great Britain only 37 per cent. Italy was paying 24½ to America and only 18 to England. France was materially prosperous, and Italy was doing well. Friends of Premier Mussolini in this country talked of the prosperity of Italy, but they refrained from pointing it out when it became a question of Italy paying.

England was paying America 76 per cent of her debt. The American debt had been muddled from the first. All the mischief had arisen from that settlement. At the time of the agreement with America, Britain could have held out for wiping off all debts and it would have been a great mercy had it been done.

At the same time criticisms of the United States in the House of Commons were also indulged in by Edward Hilton Young, former Liberal Financial Secretary to the Treasury, whose remarks are given as follows in Associated Press cablegrams from London, July 19:

He pointed to the need of American credits to restore Europe, and to the fact that these were withheld while instabil-

ity continued; hence the necessity of getting all these debt questions settled. He asserted that while America's payments from England were immediate and sure, England's receipts from her debtor European states were ultimate and hypothetical.

Mr. Young protested against the idea of dealing with the debts along purely commercial lines. He did not desire to stir up feeling, but there was something amiss in the fact that all reparations payments were entering American pockets. He believed that the treatment of the debts commercially was misrepresenting the spirit of a great nation and doing the greatest historical wrong to the reasons for America's entry into the war.

There was a small minority in America which made its ledger its bible and commercialism its god, said Mr. Young, but he believed the real opinion of the American people was otherwise and that in the course of time the true heart of that great people would express itself.

PRESS STATEMENT OF THE BRITISH ACCOUNT WITH THE UNITED STATES IN CONNECTION WITH WAR LOANS [23]

JULY 20, 1926.

A statement of the British account with the United States in connection with war loans shows the following reported expenditures in the United States:

Munitions, including remounts	$1,330,607,883.09
Munitions for other governments	205,495,801.10
Exchange and cotton purchases	1,682,419,875.31
Cereals	1,375,379,343.57
Other foods	1,169,153,585.05
Tobacco	99,174,858.34
Other supplies	215,331,787.01
Shipping	48,890,000.00
Reimbursements	19,302,357.55
Interest	387,732,633.50
Maturities	353,501,561.66
Relief	16,000,000.00
Silver	261,643,388.81
Food for northern Russia	7,029,965.94
Miscellaneous	47,745,629.01
Total reported expenditures	$7,219,408,669.94

[23] By Under Secretary of the Treasury Winston.

These expenditures were met as follows:

By reimbursement from the other Allies out of funds loaned to those Allies by the United States	$1,853,612,246.37
By dollar payments by the United States government for British currencies	449,496,227.55
By proceeds of rupee credits in gold from India	81,352,908.06
By cash from Britain's "own independent resources"	760,128,929.52
Funded in debt settlement with the United States	4,074,818,358.44
	$7,219,408,669.94

From England's total reported expenditures in America from April 6, 1917, to November 1, 1920, there should be deducted the $1,853,000,000 expenditures for which Great Britain was simply the purchasing agent for the other Allies and for which Great Britain was paid by the other Allies from money loaned to them by the United States. This amount was not provided from England's "own independent resources." This leaves $5,366,000,000. Of this amount $1,682,000,000 represents "exchange and cotton purchases." The greater part of this expenditure was for the maintenance of sterling exchange, not necessary for purchases in America, but which enabled England to make purchases in other countries at an undepreciated exchange rate; $2,643,000,000 was for food and tobacco. A part of this item is probably included in the account out of which England was reimbursed by the other Allies and a part was resold by England to its own civil population. To the extent of this resale England avoided the necessity of floating loans in its own country; $507,877,000 was for interest and principal of England's commercial obligations maturing in America; $261,000,000 was for silver.

The total principal advances to England after the armistice were $581,000,000.

BRITISH TREASURY STATEMENT IN ANSWER TO SECRETARY MELLON, JULY 22, 1926

The British Treasury statement is reported as follows in Associated Press accounts:

Great Britain provided sterling and neutral currencies to meet all her own requirements throughout the war, and, in addition, bore the burden of covering the sterling requirements of her continental Allies.

But for the fact that the United States did not feel able on entering the war to relieve her of additional burden, Great Britain would have been able to meet from the resources she placed at the disposal of her Allies her expenditures in America, and in all human probability the British debt to the United States would never have been incurred.

The British Treasury feels it necessary to set forth the foregoing facts because they seem to show that no case for discriminating against Great Britain can be founded upon her use of money borrowed from the United States for the prosecution of the war. No complaint has been made by Great Britain against the adverse discrimination with which she has been treated.

It is recognized that the creditor is entitled to discriminate between debtors and that a debtor is bound to comply with the demands of the creditors up to the full limit of the obligations. It is only when reasons are assigned for such discrimination which clearly arise from a misconception of the facts that necessary corrections of fact must be made.

The Treasury communique starts with a reference to Secretary Mellon's statement as referred to by Chancellor Churchill in the House of Commons on Monday. The Chancellor of the Exchequer quoted the American Secretary of the Treasury as having said that Britain borrowed a large proportion of her debt for purely commercial as distinct from war purposes, to meet commercial obligations maturing in America, to furnish India with silver, to buy food and to maintain exchange. American loans to Britain, according to Secretary Mellon, were not so much to provide war supplies as to furnish sterling for home and foreign needs and to save Britain from borrowing from her own people.

The communique then proceeds:

A further statement, reported to have been issued by the United States Treasury, while largely confirming the facts cited by the Chancellor of the Exchequer, refers to certain further points of detail, on which comments appear desirable.

This statement sets out under certain headings the expenditure incurred by Great Britain in the United States after the latter's entry into the war.

Then, quoting five headings of this expenditure from the American Treasury statement, the communique continues:

It is not understood why the United States Treasury statement appears to treat dollars derived by the British Treasury from the sale of sterling and rupees as not constituting part of Great Britain's independent resources.

The United States government was provided by Great Britain for the American army needs in the United Kingdom with sterling, against which the United States paid dollars. This was in essence a purchase of exchange for sterling, and clearly must be regarded as an independent resource of Great Britain. On the United States Treasury's figures, therefore, Items 2, 3, and 4 account for $1,300,000,000 out of the total expenditure of $7,219,000,000.

As regards the further sum of $1,853,000,000 obtained from the European Allies in the form of reimbursements, it must be remembered that Great Britain throughout the war furnished the Allies with assistance in obtaining purchases in the United States.

For example, Great Britain could have satisfied her cereal requirements from the British dominions and Argentina without purchasing wheat in the United States and without borrowing dollars for that purpose. To save tonnage and the risk of U-boat attacks, however, it was arranged that Italy and France should be supplied at Mediterranean ports with cereals grown in the British Empire, whereas we bought for ourselves in America and borrowed for the purpose.

The cost of all these purchases was distributed between the Allies, and considerable amounts were repaid by them [out of loans they raised in the United States], but a large proportion remains at the charge of the British Government and is included in the British debt to America.

Moreover, the reimbursements received from the other Allies were more than equaled by further British purchases in America of essential commodities, and the reimbursements in no way invalidate the fact that British purchases of American munitions, foodstuffs and other commodities essential for the prosecution of the war largely exceeded the amount Great Britain borrowed from the United States.

The statement of the United States Treasury shows that there is no disagreement upon the actual figures, and that of the total of $7,219,000,000 Great Britain expended in the United States between 1917 and 1920, only $4,074,000,000 was borrowed from the United States.

Regarding the expenditure of the funds thus available, the United States Treasury refers to the $1,682,000,000 spent on exchange and cotton purchases, and states: "The greater part of this expenditure was for the maintenance of sterling exchange and was not necessary for purchases in America, but which enabled England to make purchases in other countries at an unprecedented exchange rate."

This statement is very difficult to understand. It appears, however, to mean that the dollars in question were not used for purchases in America, but for a sale across the exchange. This is by no means the case. The expenditure in question represents largely, if not entirely, bills drawn on London by American exporters in respect to sales of cotton and other American commodities to England, and practically the whole amount represents payments for actual exports from America to England.

Arbitrage transactions—that is, sales of dollars for other foreign currencies—were practically non-existent during the war, and British purchases in neutral countries, such as Scandinavia, Spain and Argentina, were financed entirely without American help.

The communique quotes from an official report of the United States Treasury for 1920 regarding the exchange item, and continues:-

It is quite true that a large part of the British borrowing was spent on the purchase of foodstuffs for the civil population, as well as for the

army, but it was recognized at the time and it is obvious that supplies for the civil population were an essential of the war requirements. Food for the workman was as important as ammunition for the soldier. Nor could the soldier be asked to fight if his family at home was not fed.

The United States Treasury memorandum lays stress on the fact that the United States loaned $581,000,000 to Great Britain after the armistice, and the conclusion is suggested that this was borrowed for commercial purposes beneficial to Great Britain; in fact it was an inevitable process in winding up the immense transactions current when the war was suddenly stopped.

The Columbia-Princeton-Mellon-Howard Correspondence on Debt Revision, December, 1926-March, 1927

Statement by Members of the Faculty of Political Science, Columbia University, on the War Debt Problem, December 19, 1926[24]

Prefatory Statement by President Nicholas Murray Butler

The Faculty of Political Science in Columbia University, composed of some forty scholars and men of affairs, who are in the very front rank in the fields of economics, social science, history, and public law, have united in a carefully prepared statement of what they conceive to be the relation between the interallied war debts and the reparations fixed by the Treaty of Versailles, and the peace and economic restoration of the world. There can be no higher or more disinterested authority than that which these gentlemen enjoy. They are not closet philosophers, but men in active touch with every phase of practical life, including finance, industry, commerce, and legislation.

The American people hardly realize the enormous advance made toward the establishment of international security and peace during the year 1926. The word Locarno has become symbolic not only of progress but of an ideal which is no longer considered impracticable. This is due in chief measure to the fact that M. Briand, Dr. Stresemann and Sir Austin Chamberlain are not merely the heads of the foreign offices of three govern-

[24] From *International Conciliation*, May, 1927.

ments whose interests have often been in competition or in conflict, but that these men have become close comrades, working with loyalty and devotion upon a common task. It is unthinkable that the people of the United States, with their traditions and their historic policies of international friendship and cooperation, will withhold any possible measure of support from this epoch-making movement.

This statement is in no sense a proposal for the cancellation of the debts or reparations. It is an argument for the re-study of these debts and reparations and of all the problems that are so closely related to them or that grow out of them in the light of most recent political and economic developments in Europe, this re-study to be made by or under the direction of an international conference summoned for that particular purpose.

To Americans it will be of special interest to read again the letter addressed by Thomas Jefferson when Secretary of State to Mr. Hammond, Minister Plenipotentiary of Great Britain, under date of May 29, 1792, and still more, perhaps, the preliminary draft of that letter which was submitted to the criticism of President Washington, of Alexander Hamilton, of James Madison, and of Edmund Randolph, in answer to the claims made by the British government arising out of the destruction, here in the United States during the War of Independence, of property belonging to the British government or to Loyalists.

Text of Statement

We the undersigned members of the Faculty of Political Science and Associated Schools of Columbia University submit for impartial consideration the following statement.

In our judgment the war debts settlements are unsound in principle. Certainly they have created and are fostering a deep sense of grievance against us. We do not urge that the debts be completely canceled. Whether

there should be cancellation in whole or only in part depends on many complicated factors yet to be studied. What we do urge is complete reconsideration in the light of present knowledge. To this end we believe that an International Conference should be called to review the entire problem of dept payments, and make proposals for readjustment. This need not and should not in any way interfere with present negotiations, nor the current operation of the Dawes plan. On the contrary it would facilitate them. The proposed conference cannot be hurriedly improvised, but definite steps looking toward its organization would ease the present situation and we should find ourselves cooperating helpfully and con-constructively with other nations upon terms of a lasting settlement.

In the last few months the nations of western and central Europe have made an unprecedented effort to rid themselves of the menace of future war. At present they are succeeding beyond all expectation. In proportion to their success the whole world will share in the benefits. If their great adventure fails, the whole world, including ourselves, will some day suffer incalculably.

The prime condition of the success of any such movement is mutual trust and understanding. Our war debt settlements have produced distrust and misunderstanding. When century-old political enmities are yielding to common sense, an international financial problem of recent origin, whatever its magnitude, should not be allowed to threaten the foremost gain in international relations since European nations began.

Our share of the war debt problem arose out of our entry into the war in 1917. True we should have had no occasion for war had there been no European war. But the controversy as to the responsibilities of European powers for the outbreak of war in 1914 is not pertinent to that other question of why we went to war

in 1917. America went into the war on an issue of its own. The *casus belli* for the United States was unrestrained submarine warfare, behind which lay—in 1917—an apprehension of decisive military and naval successes on the part of the Central Powers imperilling the development of free institutions.

Our declaration of war was followed by the mobilization not only of our man power but also of our material and financial resources. From the latter we made extensive advances to other nations fighting a common enemy. Thus arose the first phase of the war debt problem. It was a time when we were straining every effort to hasten our own direct participation in the war. From the record of debates in Congress, it is clear that these advances were not regarded by those who voted them as business transactions, but rather as joint contributions to a common cause. But even if we did not have these statements, the grants themselves would have been justifiable upon no other ground. That the borrowers used the credits to help win their own wars is undoubtedly true; but the reason that we loaned them the money was the fact that by so doing they were also helping us to win our war. If this were not so, it would mean that our government diverted for the use of others vast sums of money and essential war supplies at a time when it was calling upon the country to make every possible sacrifice to maintain its own cause. The credits were freely given because they were to secure for us effective support for our own effort, either directly on the field of battle or indirectly by strengthening the nations associated with us. They would have been justified by no other purpose.

Not all of our war loans were used directly for military purposes. Some of them helped to feed and clothe civilian populations. Some provided permanent improvements useful after the war was over. Some of the loans were made after the armistice was concluded.

In the debt settlements we have made, insufficient account has been taken of those differences. The origin of various items in the debts was ignored. In justice and in reason they should have been considered.

The United States early abandoned the attempt to collect the full amount called for by the original debt contracts. The first formal step toward establishing a new basis of debt calculation was the creation of the Funding Commission by the Act of Congress of February 9, 1922. According to this Act, the Allies were to pay all debts in full but the rates of interest were reduced to 4¼ per cent. The very first debt negotiations, those with Great Britain, showed that still further reduction was necessary, and "capacity to pay" became the basis of these subsequent negotiations. This was the formula used in the reparations section of the Versailles Treaty with reference to Germany. At best a vague and difficult formula, it has nevertheless, upon the whole, been applied in a very real effort to reach satisfactory settlements. The Secretary of the Treasury has stated that the cash values canceled in the settlements with Great Britain, Italy, Belgium, and in that offered France, amount to $5,489,000,000. This means that the United States is now canceling about one-half the aggregate sum represented by the principal and interest of the original debts.

This partial cancellation would be generous to the extreme if the debts had been mere business transactions. It is nevertheless regarded by the debtor nations as not touching the heart of the issue. They hold in mind chiefly those credits which were used to wage war. They contend that they should not in fairness be required to repay advances that were expended for our benefit as well as for their own at a time when money was our only contribution. For over a year after our declaration of war their troops almost alone held the enemy in check. This was the critical period during which Germany,

freed on the east, brought the whole weight of its power to break the western front. During this supreme crisis, if the Allies had spared lives or if we had stinted supplies, our war as well as theirs might have been lost.

No attempt to reopen these pages of history was made in the negotiation of debt settlements. This was chiefly because the act creating our Debt Funding Commission allowed only limited discretion to that body. Moreover, there is no way to compare the value of supplies with that of lives sacrificed in war.

The points ignored in the official settlements, however, have been all the more accentuated in popular discussion. The controversy has ranged far beyond the question of money. The question of generosity between debtor and creditor has been discussed upon terms of what equivalent, moral or material, has been rendered for the sums advanced. To the minds of our debtors this is the core of the controversy. Sooner or later we shall be compelled to give consideration to this point of view.

But before addressing ourselves to the more vital aspects of the controversy we must call attention to serious defects in the existing settlements.

The existing settlements rest upon a basis which is itself open to question. The formula "capacity to pay," which, in the case of ordinary debt adjustments, may be applied, to the possible benefit of both parties, proves difficult if not impossible of just application in the case of debts so vast as to reach over two or three generations. In most of the debt settlements the period agreed upon stretches forward sixty-two years. The estimates of capacity are, of necessity, based upon the statistics of the pre-war period and those of the abnormal post-war or reconstruction period. Obviously there are no figures for the future.

How impossible it is to estimate the relative economic "capacities" of nations for so long a period will be clear

to anyone who looks back over the last sixty-two years. The steel industry of Germany, now far surpassing that of England, is almost entirely the product of the last half century. Similarly, other basic industries such as coal, wheat, cotton, rubber, potash, and even gold are in process of redistribution among the countries of the world. Nations today are changing their relative positions even more rapidly than in the past. How, then, can there be any degree of certainty in the estimates of future capacity, upon which this settlement so largely rests? It is surely unjust to fix the burdens of future generations on the basis of guesswork.

This injustice is all the more evident when one compares the various settlements and notes the wide discrepancies in liberality. On a 4¼ per cent interest basis France is to pay only 50 per cent, Belgium 54 per cent, of the whole debt (interest included). Great Britain is to pay 82 per cent while Italy pays only 26 per cent. Whatever justification there may have been for differences in treatment of the various national debts, it is unfortunate that the principle "capacity to pay" should result in such striking variations as these.

Still more regrettable is the impression which the formula conveys concerning our attitude as creditor. To exact a payment according to the capacity of the debtors seems to imply that the exaction is according to the *full* capacity to pay. If this basis of settlement had been rigorously applied, it would mean that we were threatening to lower materially the standard of living in Europe by taking tribute of their every possible saving for three generations to come. This is without doubt a wrong interpretation of the attitude of the creditor; but it is a natural, popular interpretation in the debtor countries. The phrase itself, "capacity to pay," rings hard and heartless.

As a matter of fact, it was partly to escape just this kind of international misunderstanding that negotiators

dealt primarily with the interest instead of with the principal. The attention of the creditor could be drawn to the full amount of the principal, that of the debtors to the scaled-down interest or lessened annual payments. Unfortunately debtors and creditor looked at just the opposite items. The result is that dissatisfaction over the terms of the settlement has extended to a misunderstanding of motives. In the case of nations bound so closely and for so long to carry out agreements which seem to them unjust, this dissatisfaction may easily wreck the plans for world order and peace, according to which Europe is rebuilding its shattered economic fabric. Our debt settlements are part and parcel of a whole network of settlements between the other powers. It is clear that the whole matter should be re-examined on a basis not of immediate expediency but of justice and of generous intention that would give no reasonable ground for misunderstanding.

Before proceeding with the proposal for a revision of the debt policy let us see what are the economic effects of the present agreements. The political and moral issues are, as we have seen, of the greatest importance. But it will come as a surprise to many to find that the material interests involved, so far as we are concerned, are relatively small.

(1) Our scheduled annual receipts from debt payments during the next four years will be less than 5 per cent of either the present annual commodity imports or the present annual commodity exports of the United States. This percentage is smaller than the year-to-year fluctuations which have actually occurred in either exports or imports since the war.

(2) The scheduled annual payments for the next few years will constitute, it is estimated, less than ⅓ of 1 per cent of our annual national income. Even the increased payments called for in later years will not exceed ½ of 1 per cent of the probable national income.

(3) The scheduled annual debt payments will make much less difference in the American tax bill than is generally supposed. The payments due in the next four years amount to less than $2 annually for each person in this country. They amount to less than 10 per cent of the estimated yield of the Federal Income Tax of 1927; and if applied entirely to a reduction in the personal income tax rate, they would make a difference of only $2 a year to a typical income tax payer with net income of $5,000 a year. The latest tabulation shows that in 1924, 90 per cent of the Federal income tax payers paid on net incomes of less than $5,000.

(4) Fulfilment of the debt agreements necessarily imposes on European debtors hardships much greater than the benefits that accrue to America. Great Britain, France, Italy, and other European countries are already bearing burdens which strain their courage and strength. Taxation, in proportion to income and population, is between two and three times heavier in England, France, and Italy than it is in the United States. Payments that could at best mean a paltry gain for most American taxpayers mean to the overtaxed debtors a crushing load.

A NEW BASIS POSSIBLE

We must substitute for the unfair and inappropriate principle of capacity to pay a full and frank reconsideration of the debt and reparation problems, in an international conference to which all the countries concerned shall send representatives. To this conference the representatives of the United States should go, not with rigid instructions, like those hampering our Debt Commission, but with directions to determine what settlement, compatible with the demands of justice, would seem best calculated to promote the future peace and prosperity of the world. This is a joint enterprise. It calls for similar action by other nations and affects all international monetary operations directly caused by the War.

We realize that this statement has touched upon only a few of the many aspects of this complex question. We have said nothing about the legality of our claim to full payment. That is conceded by all the debtor nations. We have passed over the fact that while the advances were made by the United States government the means required were secured by issues of bonds to our own citizens, which bonds must be paid with interest whether or not the debtor nations make repayment. But to the extent that these advances were used by our associates to prosecute the war to our incalculable advantage, they seem to us like other war expenses, financed through bond issues rather than through revenues from taxation. We have said nothing of the special reason for moderation in our claims for repayment from Great Britain growing out of the loans she was making to our continental associates, also mainly to permit a more vigorous prosecution of the war, nor of her declared willingness to forego repayment from them in exact proportion to the extent that we relax our demand for repayment from herself. This aspect must be given due weight in any international debt conference. Finally we have not attempted to estimate the gains made by our associates, territorial and other, through the peace treaty. Their losses were incomparably greater than ours. They have come out of the war crippled and impoverished. No sober-minded economist would think of claiming that their gains would offset more than a fraction of their losses, or that, should we cancel all the debts due us, their economic position would be raised to anything approaching ours.

There is one aspect of the question, however, that must not be ignored. Can any thoughtful American view with indifference the growing odium with which his country is coming to be regarded by our European associates? This would be distressing whatever the occasion; but when from the European point of view,

there is convincing justification for their unfavorable estimate of us, should we not welcome a chance to talk out our differences around a conference table? Evidence is accumulating week by week that our insistence on debt payment will cause the hatreds, which European countries are finding means to allay among themselves, to be concentrated squarely against us. Already international trusts are being organized to compete with our industries in neutral markets. Already it is being pointed out that the reparation payments which threaten to hold Germany in financial bondage for two or three generations are necessary to permit the Allies to pay their war debts to us. A coalition of Europe against the United States might prove a good thing for Europe. Can anyone believe that it would be a good thing for the United States? Thus the demands of justice are reenforced by the dictates of political expediency and the counsels of economic self-interest in urging us to meet halfway the countries of Europe in the International Debt and Reparations Conference, which we here propose.

[Signatures follow.]

SENATOR SMOOT'S REPLY TO THE STATEMENT OF THE COLUMBIA PROFESSORS[25]

December 22, 1926.

Mr. SMOOT: Mr. President, I ask consent of the Senate just for a few moments to make a very brief statement.

The PRESIDENT pro tempore: Without objection, the Senator will proceed.

Mr. SMOOT: Mr. President, the publicity efforts of the professors of economics at Columbia in connection with the settlement of the war debts contain assumptions which should have correction.

[25] Chairman of the Finance Committee of the Senate, member of the World War Foreign Debt Commission.

First. It is assumed by the Columbia professors that capacity to pay, as employed by the debt commission, meant the highest amount which could be collected from the debtor nation by the complete exhaustion of the debtor's resources. As a matter of fact, capacity to pay in the conception of the commission represented the ability of the debtor nation to pay, taking into consideration all its external and internal obligations and the continued full development of its national life. France's debt agreements with America and England represent only half of what it expects to receive from Germany. Italy has set up a fund into which are paid German reparations and out of which can be paid the British and American debts. The prearmistice Belgium payments are fixed at less than the receipts from Germany on this same account. The debt settlements, particularly in the earlier years, do not interfere with the economic life of the continental nations. It is claimed too heavy a burden was imposed upon England. The settlement of the American debt was a material factor in the stabilization of the British currency. It is significant that by bringing sterling exchange to parity England in paying its adverse international trade balance saves each year much more than the annuity on the American debt. It has also been stated that England has lost more through the coal strike than the entire American debt. These examples simply illustrate the relative financial importance of the settlements, but for some reason every attack on the debt commission finds it necessary to exaggerate the actual financial burden imposed on the debtors.

Second. It is assumed that the Debt Commission was bound by limitations set by Congress. The Debt Commission was given the power, without returning to Congress, to make settlements on a 4¼ per cent twenty-five year basis. No settlements were made on that basis, but in each case the commission negotiated an agreement which it and the representatives of the debtor thought

fair, and that particular agreement was approved by Congress. In no case were the limitations in the statute a restriction on negotiations. There was the utmost flexibility.

Third. It is assumed that generosity did not enter into the negotiations of the commission. It certainly was very lenient to Italy, and it cannot be condemned as harsh to France when there is imposed no greater burden on that nation than the collection of the postarmistice indebtedness at 5 per cent interest. The figures show that in the treatment of our half dozen or so relief debtors England imposed a much heavier relative burden than did America in settling for loans made by England at the same time to the same debtors and for the same purposes. French papers admit the Franco-British settlement, all things considered, is much more burdensome than the Franco-American settlement. No test of generosity is set up by the Columbia professors, but it is just assumed America was ungenerous.

Fourth. The Columbia professors complain because all debtors are not treated on an equality. They speak of a settlement of 80 per cent present value with Great Britain and 26 per cent present value with Italy. Do they propose to correct this want of equality by raising the Italian settlement to that of the British, which, of course, would impose a burden impossible of performance by Italy, or do they propose that the British be reduced to 50 per cent and the Italian raised to 50 per cent, which would make an easy settlement for Great Britain and still an impossible settlement for Italy; or do they propose that the British settlement shall be brought down to the Italian 26 per cent, thus imposing no real burden on England at all? If the last is their position, then why cannot Italy say its 26 per cent should be reduced to zero because we are collecting nothing from another debtor, as, for instance, Armenia? The whole proposition is an absurdity. If it means anything it means complete can-

cellation. It seems disingenuous to state the professors are against cancellation and still urge a method of settlement of the question which inevitably means cancellation.

Fifth. As their suggestion is understood, it is proposed that the United States go into a joint conference to fix the amount of these debts upon the standard of "equality" and "generosity." They do not state at whose expense generosity is to take place. Of course, not of Columbia University, which enjoys the privilege of exemption from taxation and therefore would feel not at all any cancellation of debts. The whole proposition of the Columbia professors amounts to a proposed conference between ourselves, a minority of one, and our debtors, all the rest of the proposed conferees. The debtors are to fix how much, if any, of their debts they wish to pay. The standards of "equality" and "generosity" will be applied by the debtors.

Sixth. Like so many good-intentioned people, the Columbia professors, instead of accomplishing the benefits which they seek to confer, are actually doing harm to those they say they would help. What Europe needs is certainty. The French can without question pay the earlier years of the debt settlement and, with a return of economic stability, the later years surely also can be met. What they need is some certainty in their fiscal affairs, which they can only obtain if they make definite the obligations which they have to meet. The pronouncement of the Columbia professors is, as was to be expected, now being used to strengthen the opposition in France to a ratification of the Mellon-Bérenger agreement and therefore has become an active factor in the maintenance of this very uncertainty from which all Europe is trying desperately to rid itself. The Columbia professors permit their idealism to seek publicity just at this time to the embarrassment of Poincare in the difficult work which lies before him.

STATEMENT OF THE FACULTY OF PRINCETON UNIVERSITY, MARCH 10, 1927 [26]

Prefatory Statement by President John Grier Hibben

The signatures of one hundred and sixteen members of the Princeton Faculty constitute one more indication, in a lengthening series, that the enlightened opinion of the country calls for a revision of the debt settlements with our former Allies. However well-intentioned may have been the motives of our representatives who approved the terms of these settlements, and however lenient these terms may be represented to be by those who wish to insist on our generosity, there is a growing recognition that the settlements so far affected do not meet the actual situation. Even granting the capacity of our debtors to fulfill our stipulations, which are now openly questioned, we do not desire to impose tremendous burdens of taxation for the next two generations on friendly countries who are struggling to regain their strength, at the very time when we are amassing a national fortune. To urge our government's obligation to its citizen bondholders and taxpayers is to evade the real issue, which does not concern the relation of the government to the people, but our national policy toward certain other states. To divorce the financial provisions of the loans from the moral situation in which they were asked for and given is to invent an unreal economic abstraction. Against the contention that this question should not be raised until all our debtors have come to book there is a ready rejoinder that it would be wiser to adopt a policy which would facilitate agreements with the remaining parties and then revise previous settlements. Finally there is good reason to believe that in economics, as well as in morals, altruism is indistinguishable from true self-interest.

[26] From *International Conciliation*, May, 1927.

Text of Statement

We, the undersigned, members of the Faculty of Princeton University, heartily endorse the desire, expressed by the Faculty of Political Science of Columbia University, for a reconsideration of the settlement of the allied debts.

[Signatures follow].

LETTER OF SECRETARY MELLON TO PRESIDENT HIBBEN OF PRINCETON UNIVERSITY

March 15, 1927.

My Dear President Hibben:

Your statement and that signed by a hundred and sixteen members of the Princeton University Faculty indorsing the statement issued by the Faculty of Political Science at Columbia, and urging the reconsideration and revision of the debt settlements with our former associates in the war, have come to my attention. I recognize, of course, the propriety of a frank expression of opinion on important public questions on the part of those in responsible positions, but I am somewhat surprised that before giving the public the benefits of their conclusions neither the gentlemen of the Faculty of Columbia University nor those of the Faculty of Princeton University saw fit to make a thorough and first-hand investigation of data available at the Treasury or sought by personal interview to ascertain the views of the American officials who negotiated the settlements. The training of these gentlemen, their standing as economists, historians, and teachers of government, would have led me to believe that they would have conceived it to be their first duty to present a dispassionate analysis of the facts based on original study rather than to submit their conclusions unsupported by facts.

Moreover, it would not have been amiss for you and your associates to have taken into consideration that one

of these agreements has not been ratified and that the inevitable effect of such a pronouncement would be to encourage and strengthen the opposition in foreign countries to such ratification, an encouragement entirely unwarranted by the circumstances in view of the fact that the American people, expressing themselves through their chosen representatives in the House of Representatives, have approved of this agreement and that the debate, when the measure was before the House for consideration, indicated that an overwhelming majority of the representatives were opposed to more lenient terms. It is highly probable that such expressions of opinion, far from making the adjustment of these outstanding obligations easier, will simply increase the difficulties of obtaining a better understanding and a ratification of the agreement.

In this connection I cannot refrain from pointing out in answer to the plea urging the reopening of all debt settlements, that it is not so long since that all of our soundest economists claimed and rightly claimed that the one prerequisite to the restoration of economic prosperity in the world was an early settlement of these debts between governments. The adoption of the Dawes plan, the ratification of the various agreements between governments providing for payment of this vast unfunded obligation, have, in the course of the last few years, contributed mightily to the progress that has been accomplished. Reopening all of the settlements would, in my judgment, be a step backward and not forward and one calculated to produce discord and confusion rather than to contribute to the economic stability and orderly betterment of world prosperity.

In your statement you say that to divorce the financial provisions of the loans from the moral situation in which they were asked for and given is to invent an unreal economic abstraction. By this I take it you mean to indorse the argument advanced by the Columbia Faculty

that our war advances to our associates were not at the time they were made regarded as business transactions but rather as joint contributions to a common cause Admitting, of course, that the congressional debates indicate clearly that the Congress was quite willing to loan this money, even on the assumption that there was a considerable element of risk in so far as ultimate recovery was concerned, nevertheless the record indicates beyond dispute that these were loans and not contributions and though not in form in actual effect loans from individual American citizens rather than contributions from the Treasury of the United States. The act providing for these loans authorized the United States government to sell Liberty Bonds to its own people and to invest the proceeds of the sale in the bonds of these foreign governments, the latter bonds to bear the same interest as the Liberty Bonds sold and to have the same maturities. What we allowed our associates to do, in effect, was to borrow money in our investment market, but since their credit was not as good as ours, to borrow on the credit of the United States rather than on their own. Looking at the substance rather than the form of the transaction the situation was no different than if they had actually sold their own bonds in the American market and our government had indorsed them. Had this course been followed would anyone contend that the sums advanced were intended as contributions to a joint enterprise rather than loans expected to be repaid?

As a corollary to this first proposition it is urged that if these advances were not to be considered contributions as an original measure they ought now to be so considered because our associates were not fighting their own battle alone but ours as well, and that for some months we were unable to put many troops into line. I am not going to attempt a discussion of the military contribution made by the United States to the winning of the war other than to remark that when the crucial period

was reached in the spring and summer of 1918 our troops were there. I recognize that there is merit in the contention that the associated governments might well have joined in pooling their resources in a common cause and that even now an argument can be made in favor of writing off debts incurred after our entry into the war to the extent that they were incurred for contributions to a common cause, but, and this is an all-important reservation, there is merit to such an argument only if the proposed adjustment is to be a mutual one and is to be applied to all on a strictly equal basis. This factor, however, is one that seems to have been completely overlooked by the faculties of Columbia and Princeton Universities and by other advocates of debt cancellation urging the common cause contribution argument.

Early in the war, in order to minimize the dislocation of exchanges and for sound economic reasons, the general principle was established that goods and services purchased by one Ally in the country of another Ally should be financed by the latter. That is to say, that if France purchased supplies and services in England the British government would furnish the pounds with which to buy them, and vice versa, when Great Britain bought goods and services in France, the French government would undertake to furnish the francs. As to whether in the latter case the francs were furnished on credit or for cash I do not know, but in the former case the pounds were furnished on credit. When we came into the war we readily agreed to apply this sound principle to our transactions with our associates. That is to say, we agreed to furnish them the dollars with which all their purchases in the United States should be consummated, and, what is more, we agreed to lend them those dollars. This was the origin of these debts. But here is the fact that is not mentioned and which you gentlemen have apparently overlooked. We purchased supplies and

services from France and the British Empire by hundreds of millions. They had to be paid for in francs and in pounds. We did not get those francs and pounds on credit—we paid cash for them, except possibly in a few comparatively minor instances. In other words, we paid cash for the goods and services necessary to enable us to make our joint contribution to the common cause. Our associates got the goods and services purchased in this country necessary to enable them to make that part of their joint contribution on credit. Here is the fundamental reason which explains why we ended the war with every one owing us and our owing no one. We are now urged to cancel these debts because it is alleged that they were incurred in a common cause, but neither abroad nor in this country has it been suggested that if this is to be done we are to be reimbursed the dollars actually expended by us in France and Great Britain so that the goods and services they sold us might constitute their contribution to the common cause.

In this connection one other fact may well be called to your attention. Among the purposes for which we made dollar advances was that of maintaining the franc and the pound at somewhere near their normal values. In other words, we loaned our associates the dollars with which to purchase bills on London and Paris and so permit them to peg the exchanges. When we were obliged to purchase francs and sterling for our own uses in the Paris and London markets, we did so at the artificial prices maintained by the use of the very funds we had loaned. I have no desire to emphasize this point. I mention it, together with the situation above described, as factors which had to be considered by those charged with the responsibility of negotiating the settlements on behalf of the American government, and which, with other important ones, could have been readily ascertained by those undertaking to advise our people had they availed themselves of the opportunity which would

have been gladly afforded them to ascertain all of the facts.

Before leaving the question of the purposes for which the debts were incurred may I remind you that I have already had occasion to point out that the present value of these debt settlements at 5 per cent, a rate less than most of the debtor nations now have to pay for money, is, except in the case of Great Britain, either less than or approximately the same as the amounts borrowed after the armistice. France's after-war indebtedness with interest amounts to $1,655,000,000; the Mellon-Bérenger settlement has a present value of $1,680,000,000. Belgium's postarmistice borrowings with interest were $258,000,000, and the present value of the settlement is $192,000,000. The postarmistice indebtedness of Italy with interest is $800,000,000, and the present value of its debt settlement is $426,000,000. The principal of Serbia's postarmistice indebtedness aggregates $16,175,000, and the present value of its debt settlement is $15,919,000. The loans to Finland, Estonia, Latvia, Lithuania, Poland, Czechoslovakia, Hungary, Austria, and Rumania were all made after the armistice.

The Columbia professors criticized capacity to pay as a formula difficult, if not impossible, of just application, a criticism I understand you indorse. But no other formula is suggested. It is obvious that in the settlement of these huge debts, the burden of which must be borne either by foreign taxpayers or by our own, it was essential that the negotiations must be based on some guiding principle if justice was to be done between all parties; that is to say, not only as between creditor and debtor, but as between debtors. Frankly I know of no fairer formula than that of capacity to pay generously applied. To ask a debtor nation to pay substantially less than it is able to without undue burden on its people is to do an injustice to our own taxpayers; while to ask a foreign debtor to pay more than its ca-

pacity, is to be guilty of an act of injustice such as I can assure you cannot be charged against us. Apparently you would have all debtors treated on an equality. Does this mean that the Italian settlement should be raised to a point where it will correspond to the British, which, of course, would impose a burden impossible of performance by Italy, or do you propose that the British be reduced to 50 per cent and the Italian raised to 50 per cent, which would make an easy settlement for Great Britain and a still impossible settlement for Italy? Or do you propose that the British settlement shall be brought down to the Italian 26 per cent thus imposing no real burden on England at all?

You say that "We do not desire to impose tremendous burdens of taxation for the next two generations on friendly countries." Are you quite sure that this is an accurate statement of the facts? In estimating the debtor's capacity to pay without inflicting such a sacrifice as would cause a lowering of its standard of living, only incidental consideration was given to the reparation payment to be received by the debtor countries from Germany. Now, the fact is that all of our principal debtors are already receiving from Germany more than enough to pay their debts to the United States; and France and Italy, with the exception of this year in the case of the latter, are receiving from the same source more than enough to pay their debts to Great Britain also.

France in the year 1926-27 will receive from Germany approximately $176,000,000. Under the agreements with Great Britain and with the United States, France will pay $30,000,000 to us and some $71,000,000 to Great Britain, leaving to France a balance of $75,000,000. In 1927-28 that balance will grow to $108,000,000. In 1928-29, in spite of the fact that the payment to Great Britain rises to $85,000,000, the balance available to France will amount that year to $186,000,000; and in 1930, after meeting her obligations to the United States

and to Great Britain, there will be a balance from reparation payments of $237,000,000. Italy is paying us this year $5,000,000 and to Great Britain $19,000,000. They will receive from Germany $22,000,000, which is just $2,000,000 less than is necessary to meet their obligations to Great Britain and the United States. But in 1929 German reparations will have risen to $45,000,000, leaving to Italy a balance, after her payments as debtor, of $21,000,000. And even in 1936, when her payments to us will amount to $16,000,000, and to Great Britain approximately $20,000,000, those two amounts will still fall short by $15,000,000 of the sums received from Germany.

Belgium this year will receive from Germany $16,000,000 more than she will pay to other countries; in 1927-28, $18,000,000 more; in 1929-30, $27,000,000 more. Yugoslavia will receive this year $11,000,000 more than they will have to pay, and next year $13,000,000 more. All of the other powers that owe us money will, in the aggregate, receive this year $3,000,000 less than they have to pay, but by 1929 will be receiving $3,000,000 more than they have to pay.

Finally we come to Great Britain. Under the agreements with France, Great Britain will receive from France approximately $71,000,000 this year; from Italy, approximately $19,000,000; from Germany, approximately $72,000,000; and will pay us $160,000,000. Or, in other words, Great Britain will receive this year from her debtors $2,000,000 more than she pays us. Next year Great Britain will receive from France $69,000,000; from Italy, $19,000,000; from Germany $87,000,000; or, a total of $175,000,000. Great Britain will pay us $160,000,000, leaving a balance of $15,000,000. In 1928-29 Great Britain will receive from France $85,000,000; from Italy, $19,000,000; from Germany, $127,000,000; or a total of $231,000,000. Great Britain will pay us $161,000,000 making a credit balance of $70,000,000. It is

true that in the past two years Great Britain has received about $100,000,000 from Germany, France, and Italy less than she has paid the United States, but it is equally true that from this year on Great Britain every year will receive from her debtors a substantial amount more than she will pay to us, so that her American payments will not constitute a drain upon her own economic resources.

It is true that Great Britain has agreed not to accept more from her debtors than the sums which when added to reparation payments will equal those which she pays the United States. But even taking this into consideration, it is obvious that your statement that the debt agreements which we have made impose a tremendous burden of taxation for the next two generations on friendly countries is not accurate, since the sums paid us will not come from taxation but will be more than met by the payments to be exacted from Germany.

It must also be obvious that if the amounts to be paid by all our debtors are to be reduced and a corresponding reduction is to be made in the amount of reparations to be paid by Germany the net effect of this change will be to transfer the burden of reparation payments from the shoulders of the German taxpayer to those of the American taxpayer.

Finally, the joint faculties of Columbia and Princeton urge the American people to reconsider the debt settlements with allied countries "because of the growing odium with which this country is coming to be regarded by our European associates." I doubt whether European nations dislike us as much as some people tell us they do. But I know this, that if they do, the cancellation of that part of their debts which has not already been canceled will not of itself change their dislike into affection. Neither in international relations any more than in private life is affection a purchasable commodity, while my observation and reading of history lead me to conclude that a nation is hardly likely to deserve

and maintain the respect of other nations by sacrificing its own just claims.

No one can insure the future; but given normal conditions, it is believed a true balance has been held between the duty of the debt commission to the American taxpayer and fairness toward those nations to which was extended aid during and after the war. The debts have not been canceled, but excessive demands have not been made. Certainly the debt settlements cannot become too heavy a load in the next few years. In the future, with peace and the development of trade internally and externally, it is not too much to expect that this will be equally true of the later years also. The outstanding fact is that these debts have been settled. A fair trial can now be had, not on theory, but in practice, and a reopening of the whole question at the present time would do more to interrupt the steady progress achieved since settlement than might be gained from any ultimate minor adjustments that can be effected.

Very sincerely yours,

A. W. Mellon,
Secretary of the Treasury.

Dr. John Grier Hibben,
President, Princeton University,
Princeton, New Jersey.

STATEMENT, BY PRESIDENT HIBBEN, IN REPLY TO SECRETARY MELLON'S LETTER [27]

After consulting with several of my colleagues I wish to make the following comment upon the letter of the Secretary of the Treasury addressed to me of the date of March 15th, 1927, and appearing in the press of today.

It is a matter of gratification to us that Mr. Mellon has made this statement because it brings the question

[27] From *International Conciliation*, May, 1927.

of foreign debts more forcibly to the thoughtful consideration of the American people.

The statement coming from one hundred and sixteen members of the Princeton Faculty was based upon the general information which the State Department had made public for the benefit of the American people and it had not occurred to us that there was any essential information concerning the situation that had not been forthcoming. We felt there was no impropriety as American citizens in making a statement of conviction, even though it ran contrary to a decision of Congress. In the history of the American people an enlightened public opinion has often served to change even the vote of Congress.

Mr. Mellon's argument that the burden of paying all debts owed to the United States is not a grievous one because it can be paid with amounts received each year from German reparations, is not in keeping with the statement of policy made by the Debt Commission and reported as follows in the *New York Times* of September, 30, 1925:

> The American Commission has insisted and still remains firm in the decision that the payment of German reparations to France shall not be linked directly with the Debt Funding Agreement. It being held that the German reparation payments and the French Wartime Debt to the United States are separate problems.

Moreover, the request of France that America should take a position towards France similar to that of Great Britain in reference to the modification of payments due in the event that the German reparations should diminish in amount or fail altogether was refused by our Debt Commission. This proposal was called the "Safeguard Clause" and was eliminated from the debt settlement proposal between France and the United States at our insistence. Mr. Mellon's argument therefore in this respect has validity only so far as it assumes that Germany will continue to pay the regular amounts of reparation

through a period of sixty years. This is an assumption of dubious justification.

According to Mr. Mellon we in the United States are to get the benefit of the reparations coming from Germany through our allied debtors and designed originally to repair damages of the War. The nations which suffered cannot use the reparations for the repair of their own destroyed property but must pass it on immediately to their Ally in the War, the United States.

There is no doubt that Mr. Mellon is quite correct that these debts were not contributions of the United States to their Allies, but were veritable business transactions, and yet we must not overlook the fact that they were made in the midst of the exigencies of war, when all of the allied nations were confronted with the serious uncertainty concerning the outcome of the conflict, and in the efforts to realize the common objective there was certainly a common cause. The post-war loans to the Allies were made for a common cause as truly as the loans which were used in providing powder, shot and shell and the general equipment of war.

John Grier Hibben.

March 18, 1927.

REPLY BY PROFESSOR EDWIN R. A. SELIGMAN, TO SECRETARY OF THE TREASURY MELLON'S LETTER

Honorable Andrew W. Mellon,
Washington.

My dear Mr. Secretary:

Your open letter to President Hibben on the debt settlements was so temperate and courteous, and recognized so clearly the legitimacy of a serious discussion of this important question that the signers of the Columbia statement of last December, to which you so frequently refer, have authorized me to make a few observations. Following your example, I am at the same time offering this letter for publication.

I should like to call your attention to what I conceive to be various errors of fact and interpretation in your letter. These fall into two groups, one affecting the Columbia and Princeton statements, the other relating to your own positive contentions on certain economic aspects of the question.

In the first place, when you speak of the loans as investments, throughout your entire argument, you pass over in silence those moral aspects of the debt situation which formed the principal basis of the Columbia and Princeton statements. The question will not be finally settled until we reach an adjustment that is morally defensible as well as economically sound, but it would be idle for me to attempt here to add anything to the analysis of the moral phase of the subject. I desire only to point out that your letter fails to meet this issue at all.

You intimate, in the second place, that our statement was based upon an inadequate knowledge of the facts. I assure you that we are thoroughly familiar with all the facts that have been made public by the Treasury Department. If there is in your files any pertinent information of a fundamental character which has not been divulged and which we ought to have consulted, the statements thus far issued by the Treasury fail to suggest its existence. Has not the time now come when any such information should be made public?

You intimate that the Columbia statement was calculated to imperil the acceptance by France of the debt agreement. It is true that when the statement was issued there appeared to be some basis for this anxiety; but I submit that events have since shown that France was able to balance her budget and to arrest the fall of the franc without the aid of that American loan, the desire to secure which was the only strong argument for ratification put forward by any responsible French statesman. Evidently the Columbia statement had no substantial effect on the action of France in reference to ratification.

I come now to what seems to me the errors involved in your contentions in the strictly economic field.

First, it is true that American dollars enabled the Allies to peg the exchanges; that is, to keep the exchange close to the pre-war levels. This procedure rendered it possible for the Allies to purchase goods in the United States without putting an exorbitant strain on their domestic finances. But it is a gross error to say that pegging made American purchases in the allied countries substantially more costly. It was precisely the pegging that kept allied internal prices from soaring. Without the peg the allied exchanges would undoubtedly have fallen, but allied prices would have risen roughly to correspond, as shown by the postwar experience when the peg was removed. There would, of course, have been some lag in the rise of prices. But the resulting decrease in the dollar cost to us of allied goods and services would have fallen far short of offsetting the disastrous consequences of a collapse of the allied exchanges.

Second, in estimating the present value and real burden of the debts, you continue to take the rate of interest at 5 per cent, and that, too, at the very time when the American government is borrowing money in this country at 3½ per cent or even less. To use the higher rate of interest greatly exaggerates the real reduction in the debts which this country has granted. It is no answer to say that the debtors themselves must still pay 5 per cent on their current borrowings, since the present values of the debts, in the calculation of which the interest rate is here used, are values to the United States, not to the debtors.

Third, you object to criticism of the principle of capacity to pay, but you fail to realize its essential weakness as a criterion. It is conceivable that an entire nation's capacity to make payments abroad can be estimated for the present and the immediate future; but it is obviously impossible to make such an estimate, on any

fair and scientific basis, for so long a period as the next sixty years to come. In point of fact, the use of the "principle" cannot denote a just and accurate procedure. It can only have been a cloak for bargaining and compromise. Moreover, the principle has proved to involve a confusion between the idea of maximum limits and the idea of minimum limits.

You interpret capacity to pay in the generous sense of reducing payments to what seems to you a just and reasonable extent. The French, on the contrary, interpret the term, as found in our debt agreements, to mean the maximum that the debtor can possibly be forced to pay. To refer objective action to a principle which is open to such contradictory interpretations is unfair and misleading. Again, you rebuke the Columbia and Princeton groups for failing to suggest some other formula than capacity to pay. They have offered no rigid percentage basis for calculating the payments, because they think no such basis is applicable. Instead, they urge a procedure which will take detailed account of the varying origin and nature of the debts themselves. The procedure followed by the United States treats all debts except that of Belgium as essentially commercial obligations.

You advert to the dollars which the United States spent in purchasing supplies and services for the Allies. Of course we spent a great deal of money in Europe, but what we spent ran in terms of hundreds of millions, whereas the debts run in terms of billions. These are precisely among the considerations, ignored in its public pronouncement by the debt commission, which a revision would make it necessary to examine and to take into account.

The most perplexing errors, however, are found in the manner in which you link up the debt payments with German reparations. It does not allude to the point so well emphasized by President Hibben that you are here

completely reversing your former attitude; an attitude which, until your recent letter, always disclosed an adamantine refusal to admit that debts had anything to do with reparations. This is illustrated by the persistent refusal of the debt commission to allow the French to insert the "safeguard clause" based on reparations, a clause which probably would have ensured the acceptance of the Bérenger agreement. I call attention only to the following points:

You assume that reparations will continue to be paid in the ascending amounts contemplated in the Dawes plan, and during as long a term as sixty-two years, the term fixed in our debt agreements. Of this there is of course no guaranty whatever, and indeed much expert opinion now regards it as impossible of accomplishment. Should the payments from Germany fail to be made in the scheduled amounts over sixty-two years, your whole argument on this head breaks down.

I come next to an error which rankles deep in the hearts of our French friends. You assert that the debt payments will not require the Allies to undergo additional burdens of taxation, because they will receive from reparations more than they pay to us. You entirely overlook the fact that France has already spent on restoring the devastated regions all, and more than all, of the sums that on any reasonable probability she will ever receive from Germany. These prospective receipts are not a free fund or a surplus which can be used to pay the debts due in this country without affecting the French taxpayers. They already have been mortgaged to the full. The same considerations apply in greater or less degree to most of the other Allies.

Finally your entire argument connecting debt payments with reparations places the United States in a very ambiguous position. I do not believe that the citizens of this country can contemplate with easy conscience a situation in which the chief beneficiary of the German

"reparation" payments will be, not the Allies but the United States, which suffered none of the destruction resulting from invasion. Do we not stultify ourselves by allowing a situation to develop in which the moneys paid over to the Allies by Germany, in order to repair the devastation of the war, will flow into our coffers, leaving the allied taxpayers to carry virtually the whole burden of allied reconstruction, which the reparations payments were especially designed to meet?

I have not commented on certain other aspects of the situation ignored in your letter. They turn in part on the possible unfavorable effects of the debt receipts upon economic conditions within the United States itself, and if included here would serve to strengthen materially the plea for a reconsideration of the entire debt question.

My purpose in this letter has been merely to call attention to various economic errors which seem to me to obscure a proper understanding of this vital issue.

Faithfully yours,

EDWIN R. A. SELIGMAN.

Columbia University, March 23, 1927.

NOTE DATED MAY 2, 1927, FROM THE BRITISH GOVERNMENT TO THE SECRETARY OF STATE, COMMENTING ON LETTER DATED MARCH 15, 1927, FROM THE SECRETARY OF THE TREASURY TO PROF. JOHN GRIER HIBBEN, PRESIDENT OF PRINCETON UNIVERSITY

BRITISH EMBASSY,
Washington, D.C., May 2, 1927.

HON. FRANK B. KELLOGG,
Secretary of State of the United States,
Washington, D.C.

Sir: The attention of His Majesty's government has been drawn to the letter on allied war debts addressed to Professor John Grier Hibben, president of Princeton

University, by Mr. Mellon, Secretary of the United States Treasury, which was published on March 17. So far as this letter deals with matters of domestic controversy, His Majesty's government have of course no desire to offer any comment upon it. But the letter also contains certain specific references to the position of Great Britain; and His Majesty's government feel bound to point out that on points of cardinal importance these statements do not correspond with the facts as known to His Majesty's government. His Majesty's government feel that in justice to themselves and in order that public opinion in both countries should have a fair opportunity of judging the position, it is essential that they should frankly bring such points to the attention of the United States government.

2. In the first place, Mr. Mellon states that the United States "agreed to furnish the Allies dollars with which all their purchases in the United States should be consummated, and what is more, we agreed to lend them these dollars"; but "when the United States purchased supplies and services from France and the British Empire," they "did not get these francs and pounds on credit; they paid cash." The United States "are now urged to cancel these debts because it is alleged that they were incurred in the common cause, but neither abroad nor in the United States has it been suggested that if this is to be done the United States are to be reimbursed the dollars actually expended by us in France and Great Britain."

This statement implies that the United States government lent the British government all the dollars required to purchase supplies in America and that, over and above these loans, they paid dollars to Great Britain for the services and supplies they required from the British Empire and that these dollars were retained by His Majesty's government for their own purposes. Such of

course is not the case. All the dollar payments made by the United States for their sterling requirements in Great Britain—which though considerable were of course smaller in amount than the war loans to the United Kingdom—were taken into account in fixing the total amount of the war loans advanced to Great Britain and were applied directly to the purchase of supplies in America or to the repayment of debt. The arrangements made are clearly and concisely stated in an article published in *Foreign Affairs* (April, 1925) by Mr. Rathbone, who was during the war Assistant Secretary of the United States Treasury.

Mr. Rathbone's explanation was as follows:

> For its own war purposes in Great Britain, France, and Italy, the United States did not borrow pounds or francs or lire. Our Treasury was obliged to procure these currencies for the use of our army abroad. We bought pounds, francs, and lire from the governments of Great Britain, France, and Italy, and made payment therefor in dollars here. *The dollars thus obtained by Great Britain, France, and Italy were applied by them toward the cost of their war purchases here, and thus the amount of the dollar loans required by these countries from our Treasury was diminished in a corresponding sum.*

It will be seen that the United States government did not lend the *whole* of the money required for British purchases in America, but that the dollars received from the United States Treasury in payment of sterling provided by Great Britain were used to cover a corresponding part of Great Britain's dollar requirements, and only the *net* dollar requirements were covered by loans from the United States government.

This arrangement was obviously equitable and satisfactory to both parties, and was in fact originally suggested by the United States government, in a letter dated the 3rd of December, 1917, from Mr. Leffingwell, then Assistant Secretary of the United States Treasury, to the British Treasury representative in Washington, which includes the following paragraph:

I assume that your government will use the dollar fund thus received for meeting its dollar requirements for purchases here and would therefore reduce correspondingly its requests for dollar advances from the United States Treasury.

The dollar payments to Great Britain were thus regularly applied to reduce the dollar advances to Great Britain, so long as the latter continued: when they ceased in 1919, the dollar payments by the United States government were utilized to reduce the debt incurred by Great Britain. The statement made in Mr. Mellon's letter on this point appears to His Majesty's government to be likely to give a very erroneous impression of the facts.

3. His Majesty's government now pass to Mr. Mellon's contention that the payments made to the United States government in respect of the British war debt impose no burden on the British taxpayer.

Mr. Mellon states that "all our principal debtors are already receiving from Germany more than enough to pay their debts to the United States." So far as Great Britain is concerned this statement is incorrect. The receipts of Great Britain during the financial year 1926-27 from Germany on account of reparations represent approximately one-quarter of the payments made by His Majesty's government to the United States government, and their prospective reparation receipts during the present financial year 1927-28 (assuming that they are transferred in full) will fall substantially below one-half of the payments due to be made to the United States. Even if the receipts from Germany on account of army costs (which represent a partial reimbursement of the expenditure incurred by His Majesty's government on the maintenance of their forces) and on account of the Belgian war debt (which represents a payment on behalf of Belgium) are included, the total receipts of Great Britain from Germany in either of these years will not exceed one-half of her payments to the United States. There can be no dispute as to the facts; the figures are

published by the Agent General for Reparation Payments and are fully available to the United States Treasury.

4. When he comes later to deal with the position of Great Britain, Mr. Mellon does not in fact compare British receipts from Germany alone with British payments to the United States government; he compares the total receipts of Great Britain from reparations and interallied debts, together with the payments due by her to the United States government. He gives figures purporting to show that Great Britain will receive $2,000,000 (£412,000) more this year than she pays to the United States; $15,000,000 (£3,090,000) more next year and $70,000,000 (£14,403,000) more in 1928-29. While he admits that "in the past two years Great Britain has received about 100 million dollars (£20,576,000) from Germany, France, and Italy, less than she has paid to the United States." he adds that "it is equally true that, from this year on, Great Britain will, every year, receive from her debtors a substantial amount more than she will pay to us, so that her American payments will not constitute a drain upon her own economic resources."

5. This statement is also inaccurate both as regards the past and as regards the future.

From the 1st of April, 1919, to the 31st of December, 1926, Great Britain has paid the sum of 828½ million dollars or 170½ million pounds in respect of the debt to the United States government, whereas the sums received by Great Britain on account of reparation, Belgian war debt, and allied war debts up to the same date amount to 41 million pounds (200 million dollars) leaving a deficit of 129½ million pounds (628½ million dollars).

There seems no special reason to select the past two years only, as is done in Mr. Mellon's letter, but the position as regards this period is that during the first two years of the operation of the Dawes plan (1924-25

and 1925-26) the receipts of this country from reparation (including Belgian war debt) and allied war debts together fell short of British payments to the United States government by approximately £50,000,000 ($243,000,000).

6. As regards the financial year 1926-27, the share of the United Kingdom in the third Dawes plan annuity in respect of reparation and Belgian war debt amounts to 12 million pounds and the receipts from interallied war debts to 8½ million pounds, or a total of 20½ million pounds as against the payment due to the United States government of 33 million pounds. During the following year (1927-28) the share of the United Kingdom in the fourth Dawes annuity in respect of the Belgian war debt and reparation should amount to 14¼ million pounds and the receipts from interallied war debts to 10½ million pounds, or a total of 24¾ million pounds, as against the payment of 33 million pounds to the United States. The share of the United Kingdom in the fifth and subsequent Dawes annuities (i.e., after the 1st of September, 1928) for Belgian war debt and reparation should amount to £22,400,000, and this, together with the payments from interallied war debts (assuming the French war debt agreement to have been ratified and neglecting past deficits in British receipts as compared with payments) would be sufficient to cover the current payments due to the United States government. Whether the payments from the Dawes annuities included in the above calculations will, in fact, be received depends of course upon whether it is found possible to transfer the full amounts provided for by the Dawes plan.

7. But even if the full Dawes payments continue to be received for sixty years from now onward, the present value of the receipts of Great Britain from reparation and allied war debts together would be less than that of the payments she is obligated to make to the United

States government on account of the British war debt, assuming interest at 5 per cent to be added to payments and receipts in the past, and future payments and receipts to be discounted at the same rate.

8. It is quite true that His Majesty's government have frequently declared that their policy is to recover such a sum, in respect of their war loans to the Allies as, with the reparation receipts of Great Britain, will suffice to cover the annual payments which they have to make to the United States, but this situation has not yet been reached, and up to the present the British taxpayer has had to find the greater part of the payments to the United States from his own resources, even after applying all receipts from reparations and interallied debts to this purpose, and using none of these receipts as a set-off against the interest which has to be paid on the loans raised in Great Britain out of which advances were made to the Allies. In no circumstances will Great Britain receive from reparations and interallied war debts, taken together, more than she pays to America. The policy of His Majesty's government on this subject has been repeatedly declared. It is not their desire to retain for their country anything out of receipts from reparations and interallied war debts. In the event of their receipts from interallied war debts and reparations exceeding the payments made by them to the United States government, they have undertaken to reduce, proportionately, the payments due to be made to Great Britain in respect of interallied war indebtedness and a provision to this effect appears in the various war-debt funding agreements, which His Majesty's government have signed.

9. It is not clear on what basis the calculations cited by Mr. Mellon have been made, but it appears probable that error has arisen on the following points:

(*a*) *Receipts from Germany*—The figures men-

tioned by Mr. Mellon appear to relate to *the total receipts of the British Empire from the Dawes annuities.* But these include receipts in respect of the costs of occupation as well as in respect of Belgian war debt and reparation. The receipts in respect of costs of occupation represent a partial reimbursement of expenditure incurred by Great Britain; they are thus not available to enable payments to be made to the United States without imposing a burden on Great Britain and must be left out of account for the purpose of the present calculation. Further, the *British Empire* reparation receipts have to be distributed between Great Britain and other parts of the empire, the share of Great Britain having been agreed at 86.85 per cent of the total. The balance is not received by the British Treasury.

(*b*) *Receipts from France*—A more important error is contained in the figures given by Mr. Mellon of the receipts of Great Britain from France. These appear to include the sums which were due by the Bank of France to the Bank of England in repayment of an advance made during the war. This loan was a private transaction and is not an intergovernmental debt. The payments are made to the Bank of England and not one penny thereof accrues to the British Treasury or the British government. They are thus entirely irrelevant to the question of the extent to which the British taxpayer can meet payments to the United States government out of receipts from reparation and allied war debts.

It should be added that while the British taxpayer receives nothing from this commercial debt of the Bank of France he has to meet very large market debts incurred by the British Treasury in the United States before the United States government entered the war. Since April 1, 1919, the British taxpayer has paid 680 million dollars or 140 million pounds, on this head, over and above the payments made to the United States government.

10. These facts and figures appear to His Majesty's government sufficiently to contravert the statement put forward by Mr. Mellon that the payments made to the United States government in respect of the British war debt will not constitute a drain on British economic resources. But much more might be said. It must be remembered that, in addition to paying their own debts to the United States, the British people are sustaining the full charge for the advances made by His Majesty's government to the allied governments to enable them to finance the purchase of necessary commodities during the war not only in Great Britain but also in neutral countries. The capital sums lent for this purpose amounted to a net total of about 1,350 million pounds (6,600 million dollars) which, with interest accrued during the war period, amounted on July 1, 1919, to over 1,450 million pounds (7,000 million dollars) or nearly double the debt which His Majesty's government had themselves contracted at that date with the United States government.

This amount was borrowed by the British government from its own nationals, and in respect of this debt the British taxpayer has had to pay interest at over 5 per cent each year since, making a total annual payment of 72½ million pounds which will continue until the debt is paid off by further and additional contributions from British taxpayers. No relief from this burden can be looked for from receipts from reparation and allied war debts, for in no case will these receipts amount to a greater total than that of British debt payments to the United States government.

11. Whereas the United States government is receiving from Germany a share of the Dawes annuities estimated to cover its reparation claims in full, and at the same time obtain from Great Britain repayment, with interest at 3 per cent, of the full amount of war loans it advanced to Great Britain, Great Britain will retain for herself nothing of any payments she receives

in respect either of reparations or of interallied war debts, but will apply all her receipts toward part payment of her liabilities to the United States. Any balance that remains she will pay out of her own resources, and in any case she will have to support the entire burden of her war losses and of the war loans she herself made to her Allies.

12. His Majesty's government have set out these considerations in no contentious or controversial spirit. On the contrary, their desire is to maintain and to promote a friendly understanding between the two great English-speaking nations, on whose cooperation great issues for the peace and progress of the world depend. They view with great misgiving the divergence of opinion and the estrangement of sentiment which is growing up in regard to these war obligations. It appears to them to be the task of British and of American statesmen to do what can be done to alleviate this difference of view by setting out frankly and fairly the facts of the case and the policy adopted on either side. But the controversy can only be intensified if public opinion in America is guided by statements of facts in regard to their European debtors which to those debtors appear inaccurate and misleading.

It is for this reason that His Majesty's government regret that there should have been issued, under the authority of the Secretary of the United States Treasury, a series of statements in regard to Great Britain which for the reasons set out above appear to them not to represent accurately or completely the facts. They trust that the United States government will take steps to remove the unfortunate impression that has been created by the issue of this statement. The position and policy of the British government in regard to these international payments is well known and the records are easily available; but if at any time further information is desired

by the United States Treasury, His Majesty's government will be happy to furnish it.

I have the honor to be, with the highest consideration, sir, your most obedient, humble servant.

(For the Ambassador.)

(Signed) H. G. CHILTON.

STATEMENT OF THE SECRETARY OF THE TREASURY IN REPLY TO THE BRITISH NOTE OF MAY 2

MAY 5, 1927

The Treasury Department has no desire to enter into a controversy with the British government on the subject of allied war debts, but inasmuch as the British government, in an official note to the American State Department, has seen fit to challenge the facts and figures contained in a letter addressed by the American Secretary of the Treasury to the President of Princeton University, the Treasury deems it its duty to present the facts as it knows them, and to endeavor to explain existing differences.

It should be noted at the outset that the letter of the Secretary of the Treasury to President Hibben was in answer to a statement put out by members of the Faculty of Princeton University urging a reconsideration of the debt settlements and was directed specifically to their arguments. It was not intended as a communication, direct or indirect, to the British government, and that government was referred to only as an incident to the general thesis therein set forth.

It should be noted in the second place that the figures in the British note are apparently used in a technical accounting sense, so that, for instance, the term "allied war debts" excludes debts for war stocks. Similarly, payments received from Germany are used in the most

strictly limited sense, and do not include such items as receipts on account of army of occupation.

While not admitting it, the British government's note does not deny that the sums specified in my letter were actually paid by the people of France, Germany, and Italy, but says in substance that some of the sums paid accrued to the benefit of the Bank of England, others to the dominions, and apparently from our reading of their figures such items as payment for war stocks are not considered by them as accruing to the benefit of the exchequer on account of war debts. This is the real cause of the apparent disagreement as to facts. There is no basis of comparison when, for instance, payments on account of war debts, as used by the American Treasury, include the payments on account of war stocks sold, but such an item is not included by the British under the head of war-debt payments. Again, there is bound to be disagreement when the American Treasury Department, in discussing payments received from Germany, includes all payments, while the British government in answer confines itself to payments strictly on account of reparations and Belgian war debt. Under such circumstances there is not a disagreement as to facts; there is simply a failure to join issue.

But even these differences of interpretation are material only in respect of the period prior to September 1, 1928. The British government admits that, beginning on that date, assuming that the French agreement is ratified, it will receive from its own debtors and from Germany sums "sufficient to cover the current payments due to the United States government." This, it should be noted, is the principal point made in the letter of the Secretary of the Treasury to President Hibben, and the accuracy of this point is now officially confirmed by the British government.

The first statement to which the British government takes exception is one advanced by me in reply to the

argument that the loans made by the American government during the war should be considered as contributions to a common cause, in which I pointed out that there was merit in such contention only if the proposed adjustment was a mutual one and to be applied on a strictly equal basis between us and our debtor nations. I pointed out that the dollars with which goods and services were purchased in this country were furnished to our associates on credit, whereas the pounds with which we purchased goods and services in Great Britain were paid for in cash. I then went on to say:

> In other words, we paid cash for the goods and services necessary to enable us to make our joint contribution to the common cause. Our associates got the goods and services purchased in this country necessary to enable them to make that part of their joint contribution on credit. Here is the fundamental reason which explains why we ended the war with everyone owing us and our owing no one. We are now urged to cancel these debts because it is alleged that they were incurred in a common cause, but neither abroad nor in this country has it been suggested that if this is to be done we are to be reimbursed the dollars actually expended by us in France and Great Britain so that the goods and services they sold us might constitute their contribution to the common cause.

This the British government does not deny: that we paid cash for goods and services obtained in Great Britain and that for the most part they received goods and services in this country on credit; but they say this is misleading because they used the dollars purchased by us in Great Britain for further purchases in this country. The point seems to be immaterial. The dollars they received from the American government increased their available cash resources, while the promissory notes we received did not increase our available cash resources.

For the purchases made by Great Britain in the United States dollars were furnished by the American government by borrowing from its own citizens, the British government giving its obligations to the American government for the equivalent. For purchases made by

the American government in Great Britain the United States government did not borrow pounds from the British goverment and give its obligation to the British government, but borrowed dollars from its own citizens with which to purchase the pounds and actually paid cash to Great Britain. Had the transactions been identical in form the British government would now hold obligations of the American government to cover purchases made in Great Britain just as the American government holds obligations of the British government for purchases made in America, and obviously cancellation could not be urged on a one-sided basis. The fact that the cash employed in purchasing pounds was borrowed from American citizens and not from the British government is the distinguishing difference, and any program of cancellation which does not allow for this difference gives the United States no credit on the amount of its war debt for purchases made in Great Britain and other countries.

The British note refers to the statement in my letter to President Hibben that "all our principal debtors are already receiving from Germany more than enough to pay their debts to the United States." The Princeton and Columbia professors had stated that "we do not desire to impose tremendous burdens of taxation for the next two generations on friendly countries." My letter pointed out that in reaching the debt settlements based on the debtors' capacity to pay, only incidental consideration was given to the reparation payments to be received by the debtor countries from Germany. In other words, I pointed out that we endeavored to make settlements which the debtors could meet from their own resources without too serious a burden on their economic life. We have always claimed and claim now that the debts due us are in no way connected with German reparations. I then went on to point out that it now appears that all of our principal debtors are already receiving from Ger-

many more than enough to pay their debts to the United States. There was no intention to include Great Britain in the statement that enough was received from Germany alone. The British situation I covered separately later. That sentence as originally drafted contained the words "except Great Britain," but these words in the final copy were inadvertently omitted. The error was an obvious one and was corrected by the text immediately following. It is not believed that any injustice to Great Britain has resulted or that the British government could have been misled in view of the fact that on the page next following Great Britain's position is segregated and treated separately from that of our other debtors, and in the case of Great Britain we enumerated specifically the payments to be received, stating that they will be received not only from Germany but from France and Italy as well. I said:

> Finally, we come to Great Britain. Under the agreements with France, Great Britain will receive from France approximately $71,000,000 this year; from Italy approximately $19,000,000; from Germany approximately $72,000,000, and will pay us $160,000,000.

In the light of this very clear and definite statement, it is rather surprising that the British government should lay stress on what the context showed to be a typographical error, immediately corrected, and go to such length to disprove a statement which was already completely covered.

The British government also questions certain figures given as to payments received by Great Britain from France, Germany, and Italy. These figures were taken from the attached table showing the estimated payments and receipts of Great Britain during a twelve year period. The figures are inclusive figures and are derived from the best sources available to the Treasury.

I do not understand that the British government challenges the accuracy of these inclusive figures in so far as they represent amounts paid and to be paid by the

peoples of Germany, Italy, and France to Great Britain, but that it contends that all of these sums will not inure to the benefit of the British Treasury and therefore cannot be held to relieve the British taxpayer directly, though they unquestionably add materially to British economic resources. Even so, it is not understood why the British government apparently fails to include in its figures the payments made by the French on the debt incurred in respect of war stocks sold. From our standpoint the amount paid this year by the French government on account of the $400,000,000 of supplies sold the French government after the war constitutes a payment on account of war debts beneficial to the American Treasury.

In so far as the payments from the Bank of France to the Bank of England were concerned they were included in the figures set out in the table, because in the report presented by M. Clémentel, the French Finance Minister, in 1924, known as the "Inventaire de la Situation Financière de la France au Debut de la Treizième Législature," the statement is made that the Bank of France was simply acting as an intermediary and that the loan was made to the Bank of France for the benefit of the French government. Moreover, the published report of the Finance Commission of the French Chamber of Deputies indicates that the 1927 budget of the French government includes an item of 1,200,000,000 francs to be paid to the Bank of England under the head of reimbursements of foreign commercial debts which the Treasury must meet in 1927. In this connection, carrying as it does the implication that no government was involved, the statement of the British note "that this loan was a private transaction and is not an intergovernmental debt" is not strictly accurate. It was in the light of these facts and in the absence of any official statement as to the responsibility of the British government to the Bank of England that these payments were included in my statement of international payments

on account of war debts. If the British government was obligated to indemnify the Bank of England, the payments would serve to reduce a contingent liability which if not paid by France would become an added burden to the British taxpayer.

But irrespective of the application of the large payments which Great Britain has received and will receive this year from the governments of Germany, France, and Italy, I desire to point out that the Columbia and Princeton professors had claimed that the payments to this country would impose a tremendous burden of taxation on friendly countries for the *next two generations.* This is the statement which I challenged. The note of the British government makes it entirely clear that I was correct in challenging the accuracy of that statement, for whatever differences there may be as to the payments to be received and made by Great Britain in the years 1926 and 1927, the British government admits that after the 1st of September, 1928, it will receive from its debtors enough to cover current payments due to the United States government, assuming the agreement with France is ratified.

The two points most stressed by the advocates of debt cancellation are that capacity to pay is not a fair basis of settlement and that the agreements that have been negotiated will impose on those debtors with whom we were associated in the war a heavy burden over a very long period of time. What I desired to emphasize in the letter to President Hibben was that there could be no fairer measuring stick than capacity to pay liberally interpreted, and then to bring out the all-important fact, apparently overlooked, that some of our debtors have already reached the point, and others are about to reach it, where, taking into consideration all payments on account of war debts and war indemnities, our principal debtors are receiving or will receive more than they pay us. In other words, in the near future balances on international payments resulting directly from war debts

or Dawes payments will be in favor of our principal debtors. The purpose of the Hibben letter was to make this clear to the American people.

I have in this statement confined myself to answering the criticisms of the Hibben letter contained in the British note. It seems to me wholly undesirable to enlarge the field of possible differences by commenting on other phases of the British note, and the failure to do so should not be interpreted as an agreement with all of the views therein set forth. It seems to me, however, that the reference to the share of the Dawes annuities to be received by the United States "estimated to cover its reparation claims in full," is rather unfortunate in view of the very limited claim presented by the United States on account of reparations as contrasted with those presented by our associates in the war. The payments on account of reparations which the British government is receiving are based in part on claims, such as pensions and separation allowances, of a character not included by the United States in its reparation bill.

I have no desire to comment on the statement of the policy enunciated in the British note to the effect that Great Britain will retain for herself nothing of any payments she receives in respect of either reparations or interallied war debts, but will apply all of her receipts toward payment of her liabilities to the United States. By implication this means that should the United States further reduce British obligations to the United States the British government would cancel a like amount of obligations due to it from its debtors. It is very obvious that the British government would neither lose nor gain in such a transaction. The United States government is, however, in a very different position. The British government is both creditor and debtor. The United States government is a creditor only, and every dollar of debt canceled by the United States represents an increase by just that amount of the war burden borne by the American taxpayer.

Receipts and payments of Great Britain during 12-year period, 1924-1936
[In thousands of dollars]

Years	Sums to be received from: France[28]	Italy[29]	Germany[30]	Grand total of receipts	Sums to be paid by Great Britain to the United States	Surplus: Of payments	Available for Great Britain
1924-25......	58,282	.....	45,487	103,769	159,965	56,196	.....
1925-26......	50,369	9,733	56,782	116,884	160,260	43,376	.....
1926-27......	71,052	19,466	72,479	162,997	160,525	.....	2,472
1927-28......	69,348	19,466	87,141	175,955	159,775	.....	16,180
1928-29......	85,165	19,466	127,471	232,102	160,995	.....	71,107
1929-30......	32,363	19,466	125,142	176,971	160,185	.....	16,786
1930-31......	60,832	19,466	124,118	204,416	160,360	.....	44,056
1931-32......	60,832	19,466	125,175	205,473	159,520	.....	45,953
1932-33......	60,832	20,041	125,815	206,688	171,500	.....	35,188
1933-34......	60,832	20,041	125,815	206,688	183,340	.....	23,348
1934-35......	60,832	20,041	128,912	209,785	182,220	.....	27,565
1935-36......	60,832	20,041	128,912	209,785	181,100	.....	28,685

CHARTS SHOWING THE PRESENT STANDING OF THE DEBTS

TOTAL AMOUNTS TO BE RECEIVED BY THE TREASURY ON ACCOUNT OF PRINCIPAL AND INTEREST UNDER THE DEBT SETTLEMENTS MADE WITH FOREIGN GOVERNMENTS (WITHOUT REGARD TO ANY OPTIONS THAT HAVE BEEN OR MAY BE EXERCISED)[31]

	Principal	Interest	Total
Belgium	$417,780,000.00	$310,050,500.00	$727,830,500.00
Czechoslovakia.	115,000,000.00	[32] 197,811,433.88	312,811,433.88
Estonia	13,830,000.00	19,501,140.00	33,331,140.00
Finland	9,000,000.00	12,695,055.00	21,695,055.00
France	4,025,000,000.00	2,822,674,104.17	6,847,674,104.17
Great Britain..	4,600,000,000.00	6,505,965,000.00	11,105,965,000.00
Hungary	1,939,000.00	2,754,240.00	4,693,240.00
Italy	2,042,000,000.00	365,677,500.00	2,407,677,500.00
Latvia	5,775,000.00	8,183,635.00	13,958,635.00
Lithuania	6,030,000.00	8,501,940.00	14,531,940.00
Poland	178,560,000.00	257,127,550.00	435,687,550.00
Rumania	44,590,000.00	[32] 77,916,260.05	122,506,260.05
Yugoslavia	62,850,000.00	32,327,635.00	95,177,635.00
Total	11,522,354,000.00	10,621,185,993.10	22,143,539,993.10

[28] Includes payments by France under Churchill-Caillaux agreement, on account of advances of Bank of England less gold to be returned, and on account of war stocks debt.

[29] Includes payments by Italy on war debt less gold to be returned.

[30] Includes all receipts from Germany under Dawes plan. £1=$4.8665.

[31] From *World War Foreign Debt Commission, Combined Annual Reports.*

[32] Includes deferred payments which will be funded into principal.

AMOUNTS TO BE RECEIVED FROM GOVERNMENTS BY THE UNITED STATES UNDER DEBT AGREEMENTS, AND THE APPROXIMATE AMOUNTS OF INTEREST, IN ADDITION TO THE PRINCIPAL, THE UNITED STATES WOULD HAVE RECEIVED IF THE DEBTS HAD BEEN FUNDED ON THE BASIS OF RATES OF INTEREST OF 3, 3½, 4, 4¼, AND 5 PER CENT (COMPUTATIONS BASED UPON PRINCIPAL OF DEBTS AS FUNDED)[33]

Country	Funded indebtedness		Interest which would have been received if debts had been settled on basis of rates of—				
	Principal to be received	Interest to be received	3 per cent	3½ per cent	4 per cent	4¼ per cent	5 per cent
Belgium	$417,780,000	$310,050,500.00	$507,293,000	$610,669,000	$718,150,000	$773,272,000	$943,432,000
Czechoslovakia.	115,000,000	[34] 197,811,433.88	139,640,000	168,096,000	197,681,000	212,854,000	259,693,000
Estonia	13,830,000	19,501,140.00	16,793,000	20,215,000	23,773,000	25,598,000	31,231,000
Finland	9,000,000	12,695,055.00	10,928,000	13,155,000	15,471,000	16,658,000	20,324,000
France	4,025,000,000	2,822,674,104.17	4,887,389,000	5,883,345,000	6,918,846,000	7,449,900,000	9,089,264,000
Great Britain.	4,600,000,000	6,505,965,000.00	5,585,587,000	6,723,823,000	7,907,252,000	8,514,172,000	10,387,731,000
Hungary	1,939,000	2,754,240.00	2,354,000	2,834,000	3,333,000	3,589,000	4,379,000
Italy	2,042,000,000	365,677,500.00	2,479,515,000	2,984,793,000	3,510,132,000	3,779,552,000	4,611,249,000
Latvia	5,775,000	8,183,635.00	7,012,000	8,441,000	9,927,000	10,689,000	13,041,000
Lithuania	6,030,000	8,501,940.00	7,322,000	8,814,000	10,365,000	11,161,000	13,617,000
Poland	178,560,000	257,127,550.00	216,818,000	261,001,000	306,939,000	330,498,000	403,225,000
Rumania	44,590,000	[35] 77,916,260.05	54,144,000	65,177,000	76,649,000	82,532,000	100,693,000
Yugoslavia ...	62,850,000	32,327,635.00	76,316,000	91,868,000	108,037,000	116,330,000	141,928,000
	11,522,354,000	10,621,185,993.10	13,991,111,000	16,842,231,000	19,806,555,000	21,326,805,000	26,019,807,000

[33] From *World War Foreign Debt Commission, Combined Annual Reports.*

[34] Includes deferred payments of $29,641,023.07 funded into principal.

[35] Includes deferred payments of $11,774,229.02 funded into principal.

Statement Showing Principal Amount of Prearmistice and Postarmistice Indebtedness of Foreign Governments to the United States, Repayments on Account Thereof, and Net Principal Indebtedness to November 15, 1926, or As of the Date of Funding.[36]

Country	Prearmistice cash loans	Postarmistice: Cash loans	Postarmistice: War supplies and relief supplies	Total indebtedness	Repayments of principal	Net indebtedness
Armenia	....	....	$11,959,917.49	$11,959,917.49	....	$11,959,917.49
Austria	....	....	24,055,708.92	24,055,708.92	....	24,055,708.92
Belgium	$171,780,000.00	$177,434,467.89	29,872,732.54	379,087,200.43	$2,057,630.37	377,029,570.06
Cuba	10,000,000.00	....	....	10,000,000.00	10,000,000.00	....
Czechoslovakia	....	61,974,041.10	29,905,629.93	91,879,671.03	....	91,879,671.03
Estonia	....	....	13,999,145.60	13,999,145.60	....	13,999,145.60
Finland	....	....	8,281,926.17	8,281,926.17	....	8,281,926.17
France	1,970,000,000.00	1,027,477,800.00	407,341,145.01	3,404,818,945.01	64,302,901.29	3,340,516,043.72
Great Britain	3,696,000,000.00	581,000,000.00	....	4,277,000,000.00	202,181,641.56	4,074,818,358.44
Greece	....	15,000,000.00	....	15,000,000.00	....	15,000,000.00
Hungary	....	....	1,685,835.61	1,685,835.61	....	1,685,835.61
Italy	1,031,000,000.00	617,034,050.90	....	1,648,034,050.90	364,319.28	1,647,669,731.62
Latvia	....	....	5,132,287.14	5,132,287.14	....	5,132,287.14
Liberia	....	26,000.00	....	26,000.00	....	26,000.00
Lithuania	....	....	4,981,628.03	4,981,628.03	....	4,981,628.03
Nicaragua	....	....	166,604.14	166,604.14	138,721.15	27,882.99
Poland	....	....	159,666,972.39	159,666,972.39	....	159,666,972.39
Rumania	....	25,000,000.00	12,922,675.42	37,922,675.42	1,798,632.02	36,124,043.40
Russia	187,729,750.00	....	4,871,547.37	192,601,297.37	....	192,601,297.37
Yugoslavia	10,605,000.00	16,175,465.56	24,978,020.99	51,758,486.55	720,600.16	51,037,886.39
Total	7,077,114,750.00	2,521,121,825.45	739,821,776.75	10,338,058,352.20	281,564,445.83	10,056,493,906.37
Repayments:						
Belgium	....	2,003,659.21	53,971.16	....	2,057,630.37	....
Cuba	10,000,000.00	....	....	....	10,000,000.00	....
France	....	64,302,901.29	....	....	64,302,901.29	....
Great Britain	130,010,580.14	72,171,061.42	....	....	202,181,641.56	....
Italy	....	364,319.28	....	....	364,319.28	....
Nicaragua	....	....	138,721.15	....	138,721.15	....
Rumania	....	1,798,632.02	....	....	1,798,632.02	....
Yugoslavia	....	720,600.16	....	....	720,600.16	....
Total	140,010,580.14	141,361,173.38	192,692.31	....	281,564,445.83	....

Credit of $1,932,923 45 allowed Estonia by funding agreement not deducted above.

Obligations for war and relief supplies acquired largely in 1919 and 1920.

[36] From *World War Foreign Debt Commission, Combined Annual Reports.*

Statistics of All Countries Whose Maximum Annual Debt Payment to United States is $5,000,000 or over [37]

[In millions of dollars and in percentages of their average annual payments to the United States during the first five years]

Country	Average annual payment of debt to United States (first 5 years)	Present total budget expenditures		Expenditures for Ministries of War and Navy			Total exports to all countries in 1924		National income		Merchandise imports from United States, American tourist expenditures and immigrant remittances		
				Present		Prewar					In 1925		In 1921
	Amount	Amount	%	Amount	%	Amount	Amount	%	Amount	%	Amount	%	Amount
Great Britain......	160.6	3,859.5	4.1	556.3	28.8	375.9	4,132.2	3.8	12,000	1.3	527.7	30.4	303.8
France	32.0	2,410.4	1.3	283.7	11.2	350.3	2,171.0	1.4	6,250	0.5	337.4	9.5	226.9
Italy	5.0	809.9	0.6	130.9	3.8	131.4	624.0	0.8	3,750	0.1	277.2	1.8	177.3
Belgium	4.9	391.3	1.3	37.0	13.2	15.7	674.8	0.7	800	0.6	89.0	5.5	45.2
Poland	6.2	348.9	1.8	122.5	5.1	....	244.3	2.5	1,200	0.5	33.0	18.8	25.9
Czechoslovakia	3.0	298.1	1.0	57.3	5.2	....	502.8	0.6	1,400	0.2	29.9	10.0	13.3

1. Present budgets are as follows:
   - Great Britain, 1924-25, actual, converted at $4.85.
   - France, 1924, revised, converted at $0.0524.
   - Italy, 1924-25, actual, converted at $0.04.
   - Belgium, 1925, actual, converted at $0.0476.
   - Poland, 1925, actual, converted at $0.177.
   - Czechoslovakia, 1926, authorized, converted at $0.0296.
2. Prepared by Department of Commerce.

[37] From *World War Foreign Debt Commission, Combined Annual Reports.*

PERIODICAL ARTICLES

OPPOSING REVISION

THE FRENCH DEBT[1]

France is in better condition economically than any European nation which was engaged in the World War or any nation which came into existence by reason of the war. She has no unemployment of any moment and the people of France are universally prosperous. Her industrial development since the war has been striking and exceptional and the increase of her economic strength has excited the special comment of all who have undertaken to measure its solidity and its extent. Notwithstanding the notorious experience through which she is passing, due not to economic conditions but to politics, she can, if she chooses, meet her obligations upon fair and reasonable terms. I shall first review the creation of the French debt, the amount of the same and how and under what circumstances it was incurred; secondly, the attitude of France toward the debt and her ability, if she chooses to do so, to meet it. There has been a vast amount of propaganda, direct and indirect, put out since the war in the way of arguments for the cancellation of this debt. All sorts of reasons have been advanced as to why it should be forgiven. There is no justification either in morals or in the economic necessities of France for cancellation or for any reduction below the standard fixed in the settlement with Great Britain. Just and reasonable terms will be conceded, but acquittance of the debt would be signally unjust to the people of this country who through their government made the loan.

[1] By Senator William E. Borah. *Boston Evening Transcript.* April 25, and May 2, 1926.

France at this time owes the United States, or rather the taxpayers of the United States—for it was their money we loaned—in round numbers four billion dollars. According to the terms of the loan when made, the debt bears interest at the rate of 5 per cent. Some six years have passed since the war. No part of the principal, no interest, has been paid. No acknowledgment of the debt has been made save the original obligation. No plan, no proposal, upon the part of France for its settlement or adjustment has been submitted. No one would contend that France should have, or should now, pay this debt at once and out of hand. It has always been known that the terms of settlement upon the part of the United States would be fair and most liberal. But while it was not expected that France would pay according to the strict terms of the contract, it has been a matter of surprise, great surprise, that France has at no time submitted any terms of settlement or made any proposal looking to adjustment. It is difficult to reach but one conclusion from this fact.

It should be borne in mind in considering the conditions under which this debt was incurred that \$1,027,000,000 of the debt is for money loaned after the close of the war. It has been urged by leading Frenchmen and high officials of that government that this debt was incurred during the war and used in a common cause. This proposition is put forth as a justification of cancellation. But a large portion of the debt was not incurred during the war, it was incurred after the war was over. The money went direct from the taxpayers' pockets in the United States to the taxpayer's pockets in France, for, if the money had not been loaned by our taxpayers they, the taxpayers of France, would have had to raise it. This money was used not in the prosecution of war, but in meeting the ordinary expenses and obligations of the government in time of peace. It is a great test of tolerance to listen with courtesy to arguments against paying a debt incurred as this portion of the debt was incurred.

We were extremely generous in loaning this money after the war closed and it seems rather strange that France in her discussions takes no cognizance of that fact.

It is also urged that the money, or the most of it, borrowed by France was expended in this country. It is not exactly plain how this changes the terms of the contract of borrowing. It is true that much of it was expended in this country. We know, for instance, $650,000,000 of governmental loans were used to pay off obligations of allied nations to private bankers incurred in this country before March, 1917, all of which was secured by marketable investments deposited here by foreign governments. The American taxpayers stepped in and assumed the load. One can hardly imagine the bankers waiting six years for their principal, much less their interest. And one could hardly conceive of the bankers exhibiting the complacency under postponed payment which it is urged the taxpayer should now manifest—without limit. It should be borne in mind also in connection with this peculiar line of argument that we expended in France for war supplies, and so forth, $1,207,000,000. According to General Harbord's report, France charged us $319,895,279.97 for ordnance furnished. The Allies purchased in the United States on credit extended by our government. We paid cash for things we bought abroad. We paid for camp sites for our army in France, that is, for billeting, rentals, real estate, damages to real estate, leased damages, leased rentals, requisitioned property, restoration of French public buildings, $60,014,899.57. For airplanes and other aviation material we paid France $72,543,024.97. We are also informed that we paid port taxes for the entrance of our ships into French harbors. I do not here discuss the question of the prices we paid. Suffice it to say that the profiteer was not alone indigenous to the American soil.

Observing upon the title page of one of the oldest and most noted of English magazines the subject "Interallied

Debts," I purchased and read. I found it a fierce arraignment of the United States. It was a late publication and I was a little surprised. I could not understand how the extremely liberal settlement which we made with England could leave so much resentment. Ordinarily everyone feels better after paying an honest debt. I quote a single paragraph:

> We fought the German in Europe, while the Americans lent us money, which was spent in their own country, with the result that while the United States are saved, the rest of the world is over head and ears in debt to them. For the next sixty years we have agreed to pay an annual tribute to them, our sad reward of victory. And behind all the deliberations in Paris there lurked, in the mind of France at least, the fear lest she should be called straitly to account by the United States, her late Ally. Are then, the Americans Allies, or are they usurers? Did they go into a war in 1917, or were they after an investment?

It seems to be thought that if the denunciation is sufficiently false and sufficiently severe and sufficiently persistent, it will bring about an acquittance of the debts. The fact is that the record of the United States for disinterestedness and liberality in all dealings, both with Allies and enemies, in the last war is without precedent or parallel. We claimed no territory. England received as a result of the war 1,607,053 square miles of territory, occupied by thirty-five million people, and enriched by some of the most valuable natural resources in the world. One recalls the speech of Lloyd George upon his return from Versailles to make his report to the House of Commons in which he related in glowing terms, but in truth, of the vast gain to England. "The outstanding feature of the Peace Treaty," declared another member of the House of Commons, "is that it puts the British Empire at the highest point that it has ever reached in regard to territorial and world influence."

France acquired as a result of the war 402,392 square miles, inhabited by four million people. She acquired the vast coal beds of the Saar Valley, estimated to be worth $500,000,000. She acquired Alsace-Lorraine, one of the richest regions of the earth in natural resources.

The United States claimed no reparations. According to the American Institute of Economics, Germany, prior to the acceptance of the Dawes plan, had paid in cash and kind to the Allies $6,500,000,000. The United States did not claim territory or reparations. She did not even claim the fulfillment of the plain contract under which the money was loaned. At a time when she held the contract of England obligating the payment upon a sixty-two-years settlement of $14,214,900,000 she made a settlement of $11,105,965,000. She has voluntarily proposed to all other debtors, including France, a like settlement. If there was any "investment" made in the war it was not by the United States.

It has been urged in certain quarters that the adjustment of the international debts should be passed upon by the League Court. It is argued that if the United States becomes a member of the Court, the League should call upon the Court to take jurisdiction of this question under its advisory power and render an advisory opinion as to what would be a fair and equitable adjustment. The Court could take into consideration, it is claimed, not only the terms of the contract but the equities of the transaction. John Maynard Keynes, the noted economist and brilliant writer, has already outlined what is doubtless in the minds of those who would have the Court give advisory opinion upon this matter. Keynes says the debts are not commercial but political debts. He amplifies his views somewhat by saying that France should be credited with supplying chiefly the man power, England the naval power and the United States the financial power.

My opinion is, if all facts and conditions were considered and all acquisitions of the war were equitably divided, it would not be a bad settlement for the United States. But what the United States desires is the money which its taxpayers loaned to the government and which the government loaned to foreign governments, and that is all. There would be some interesting developments if

the League Court should take jurisdiction. I presume Russia would be allowed to interplead and thus settle her debt to the Allies. She furnished man power almost equal to all others combined. She mobilized at one time fourteen million men fighting over a front of thirty-five hundred miles. She lost two and one-half million dead on the field of battle, three million wounded, two million taken prisoners, one-half of whom died in prison, and, according to Lloyd George, it was her soldiers at one crisis who saved civilization. There are a great many equities and a great many facts in the late war which are being sadly overlooked in these days.

In this debt discussion we are constantly reminded of some things which we had understood otherwise with reference to American history. Upon reinvestigation we find our previous understanding correct. A distinguished Belgian senator has proved to his absolute satisfaction that, on the basis of the loan made to us by France during the Revolutionary War, and the amount which he supposes we did not repay, instead of France being indebted to us, we are indebted to France. In other words, the contention is that large amounts of the loan were unpaid and that amount, together with interest upon the same, would far more than offset the amount of the French debt. The fact is that the United States paid every dollar of money loaned by the French government to the American colonies during the Revolutionary War and paid it, when all circumstances are considered, with great promptness and at a rate of interest much higher than we have any intention of charging the French government. But all amounts which were loaned, or intended as a loan, were repaid and the Beaumarchais loan was overpaid by a very considerable sum—and as I have already stated, with remarkable promptness.

Some dates will throw light on the transaction. Cornwallis surrendered October, 1781. Lord North's government fell March 20, 1782. Preliminary articles of peace

were signed Nov. 30, 1782, the definitive treaty of Paris was signed September 3, 1783. Fourteen days thereafter, to wit, on September 17, 1783, the French government addressed a letter to the President of the American Congress, in which, among other things, Congress was asked to inform the French government of what measures were being taken to complete the adjustment of the French loan. Again on April 9, 1784, the French government addressed a letter to the President of Congress, which read as follows:

Luzerne to the President of Congress:

Annapolis, April 9, 1784.

Sir: I have the honor to communicate to your Excellency an extract from a letter which I received from Count de Vergennes, dated the 24th of December last.

I received orders at the same time to inform his Majesty's Minister of the measures which have been taken by the United States relative to the payment of portions of the principal and of the interest of the sums which have been loaned them by the King. I make mention, sir, of portions of the capital because, by the terms of the contract of the 16th of July, 1782, the reimbursement of the first loan of eight millions is to begin three years after the peace, and it is expedient to take seasonable measures with regard to this subject.

I am also to inform my Court of the arrangements which have been made for the payment of interest on the loan of five millions of florins made in Holland the 5th of November, 1781, and for which His Majesty became guarantee. I know the efforts of Congress to effect the discharge of the public debt, and their wish to fulfill their engagements, and I consider it superfluous to recall to your Excellency all the motives which combine to induce the United States to fulfill faithfully those which they have contracted with the King. I confine myself to desiring you to enable me to dissipate the uneasiness which may have been excited at my Court by the delay in proceeding to raise funds to effect the payment of this debt.

I am, with respect, sir, &c.,

LUZERNE

This letter may well be accepted as precedent. No exceptions were taken to this letter by the Congress or by the people of this country. It was not apparently regarded as harsh or rude. It was not deemed impolite or unfriendly in those days of simple and direct intercourse to say what was in your mind. No effort was made to

avoid meeting the obligations according to the terms of the contract. The fact is, that promptly the French government asked for payment, promptly as was possible under the circumstances the Colonies made settlement. And finally they paid every dollar of the loan which had been made to them by the French government. To contend that any part of this loan was left unsettled or unpaid is to contend against the plain, indisputable facts of history.

This matter of the loan was a plain, honorable engagement, and that kind of an engagement is quite as sacred as the engagement of a formal treaty. We are justified in assuming that the obligation will be kept in accordance with ability to keep it.

French people are refusing to carry their proportion [2] of the tax burden resulting from the Great War, and by so doing they are not only asking the taxpayer of the United States to forego the principal, but in practical effect to pay interest upon the amount which we loaned France. Should the French debt be adjusted upon the same basis that we adjusted the debt of Great Britain, the annual payment, both principal and interest, upon the part of France for the next ten years would be less than $155,000,000. In no year out of the sixty-two years during which the payments would run would the annual payments exceed $175,000,000.

A reasonable estimate of the taxable wealth of France, particularly when you take into consideration her present industrial growth and development, carrying a tax anything like the tax the American people pay, would easily meet these annual payments. The obligations and the burdens of the war cannot be met without great sacrifices and this is true relative to all the peoples who were engaged in the war. As Mr. Hoover declared some two years ago, "We want to take part in making a better

[2] From the second article by Senator Borah in the *Boston Evening Transcript*. May 2, 1926.

world, but it must be clear that sacrifices and charity from America cannot alone bring about a cure for those evils which now work against our economic program." Doubtless the French taxpayer feels his load is heavy enough. Doubtless the American taxpayer feels his is too heavy and under the circumstances most unfair and unjust. If the French taxpayer is prepared to say that there are reasons why this debt should not be paid at all, that it is really not owing, that is one thing, but in the light of the facts and figures available and indisputable, he cannot claim inability to meet the obligation.

France is by comparison with other countries a rich country. Her national wealth is $74,037,673,000. Her people are prosperous. Her large business institutions are exceptionally prosperous. She has more gold than prior to the war. In 1923 the export trade of France stood at the figure of 30,433,000,000 francs. In 1924 it reached the total of 41,454,000,000 francs, an increase in one year of one-third. In 1923 the French manufacturers' exports stood at 16,239,000,000 francs. In the following year they stood at 24,861,000,000 francs. This, of course, means the employment of skilled, expert and highly paid labor, and with high wages, correspondingly high spending.

The reports on file in the Department of Commerce justify the contention that there is no longer justification for delay in the adjustment of this debt upon reasonable terms. Prior to the war France was buying abroad more than she was selling. Her exports now far exceed her imports. Her production of coke alone is more than double what it was prior to the war. Her coal and power plants have been greatly enlarged and made vastly more efficient. . .

During the last three years France has made large loans of foreign governments—the full amount and extent of these loans cannot be stated. But we are advised by the French papers giving reports of the proceedings of

the government that large loans have been made to Poland, Roumania, Jugoslavia and other countries. According to the Le Temps, M. Henry Bérenger, of the Senate Finance Committee, reported in favor of loans to foreign governments to the extent of 1,500,000,000 francs. This report is quoted as saying:

> I have been able to make sure scrupulously that the credits asked from us will serve also our national industries and will be guaranteed by high revenues (monopolies, revenue, taxes on exports, and so forth), clearly specified and controlled. . . It will produce good evidence as to our economic expansion and upon the necessary strengthening of our continental policies in central and eastern Europe.

The news report further states that outside of the above recommended loans was a 5,000,000-franc loan to be devoted to the improvement and the enlargement of the Skoda Munition Works, making the plant bigger than Krupps was during the war. Comment upon these matters is unnecessary.

In an editorial discussion of this subject of debts some three months ago, Colonel George Harvey asked: "Does France mean business? America must know—and soon." America is entitled to know. There are a good many reasons why America is entitled to know. There are reasons why she would wish to know aside from the question of realizing upon the loan. Aside from the matter of securing the return of money loaned and relieving the taxpayers of a portion of the unjust burden now imposed upon them, there is another question, and it is this: Is any respect to be paid to the sanctity of international obligations? At a time when some understanding is being sought by which it is hoped to advance the cause of peace, which understanding must rest at last upon the "plighted word" of nations, it is of transcendent importance to know what the plighted words and solemn understandings of nations mean.

It is now six years since the war closed. No proposal to pay or adjust either the principal or the interest has

been submitted by the defaulting debtor. At one time a representative of the French government was dispatched to Washington with authority, so it was stated, to discuss terms of settlement. In so far as he spoke at all or definitely, the mission seemed to be to advise our government that France desired to have discussion of the matter postponed indefinitely. Those who had the pleasure of meeting M. Parmentier all seemed to have received the same impression—cancellation. Later, very much later, it was announced, apparently with authority, that the retiring ambassador would take up the question of adjustment of the debts shortly, and it was thought all would be satisfactorily concluded. But no proposal of adjustment upon the basis of payment was forthcoming. On the other hand, in France we are advised by those high in official life and prominent in business that France feels she ought not to pay and that she anticipates voluntary cancellation upon the part of the United States.

Loucheur, the richest individual in France, according to Colonel Harvey, and a leader in governmental affairs, has said publicly:

> It is an illusion to think that the war credits can be recovered. The Americans, especially the American people, are hardest to convince, but they must know that their war debts cannot be recovered. No system permitting the payment of the inter-allied debt can be created.

In slightly different phrase, but with no different meaning, that has been the public statements of President Poincaré, Martin and others. Many will recall the circumstances under which this loan was made—the visiting commission, the assurances, the honor pledges, the haste demanded. If anyone had dared to say that the time would come and within a very few years, when the leading men of France would be using the above language and in effect repudiating the pledges made in that hour, he would have been denounced, execrated, and if such declaration had been made after the Espionage Act had been passed, he would have been sent to prison.

There can be no mistaking the meaning of this language of these leading men of France. It is repudiation. It is disavowing the contract. It strikes at the very foundation of international integrity. It makes all talk about peace understandings and court statutes utterly vain and illusory. Whether you agree to arbitrate, to adjudicate or to furnish an army or a navy, to punish those who refuse to adjudicate, there is nothing back of it after all but the plighted word of the nations. There is no more honor behind the agreement to arbitrate and to adjudicate than there is to pay a debt.

The more one reflects upon present conditions and tendencies both within nations and between nations, the more one must conclude that there is nothing more vital to civilization and to the cause of law and order, domestically and internationally, than obedience to law and respect for international obligations—the enforcement of law and the fulfilment of treaties. Domestic tranquillity and international peace can have no foundation other than respect for law and the sanctity of obligations and treaties. If the most solemn and binding obligations are to be disregarded, and especially upon matters of mere material interests, there is no alternative in international affairs but force. There will either be a reign of law or a reign of violence. Of course, these reflections are not for France alone. I am speaking generally—disregard of treaties is just as prevalent as disregard of law. While France debates the question of meeting her debt obligation, the United States debates whether she will live up to her treaty and her century of earnest teachings relative to the confiscation of the property of foreigners. Both attitudes are astounding—a doctrine of shame and violence—repudiation and confiscation, the creed of communists. Either nation could well afford to make any financial sacrifice necessary rather than to permit this retrogression of a century to become a part of their history. Even the imputation ought not to be permitted

to have a basis. The soldiers of France and the soldiers of the United States suffered no dishonor to come to their respective countries in the most stupendous conflict of all time. If the patriots and leaders of peace are worthy of the men who made the sacrifices in war, they will shield their nations and their governments from the shame and the dishonor of further maneuvering to escape the unmistakable obligations of contracts and treaties—contracts and treaties peculiarly involving national honor.

THE LEAGUE OF DEBTORS *

Woodrow Wilson's mind was the first to see the shape of the question that lay at the heart of Europe's propaganda for cancellation of the war debts. Having seen it, he defined it in his own lucid manner. Then he answered it. His answer was no.

The question was: Shall the United States pay German reparations?

And that is the question still. It was there at the beginning; it is there now, at the core of the controversy.

In the summer of 1920, Lloyd George, then Prime Minister of England, found negotiations going on between American and British treasury agents for funding the British war debt to the United States according to contract. He stopped them abruptly, saying he would take the subject up with the President of the United States direct. On August 5, 1920, he addressed to Mr. Wilson personally his famous cancellation letter. The marrow of it was this. Mr. Lloyd George said:

> The British and French governments have been discussing during the last four months the question of giving fixity and definiteness to Germany's reparation obligations. The British government has stood steadily by the view that it was vital that

* By Garet Garrett. *Saturday Evening Post.* 199: 3+. February 12, 1927.

Germany's liabilities should be fixed at a figure which it was within the reasonable capacity of Germany to pay, and that the figure should be fixed without delay. . . After great difficulties with his own people, M. Millerand found himself able to accept this view, but he pointed out that it was impossible for France to agree to accept anything less than it was entitled to under the treaty unless its debts to its Allies and Associates in the war were treated in the same way.

This declaration appeared to the British government eminently fair. But after careful consideration they came to the conclusion that it was impossible to remit any part of what was owed to them by France except as part and parcel of all-around settlement of inter-allied indebtedness. I need not go into the reasons which lead to this conclusion, which must be clear to you. But the principal reason was that British public opinion would never support a one-sided arrangement at its sole expense, and that if such a one-sided arrangement were made it could not fail to estrange and eventually embitter the relations between the American and the British people, with calamitous results to the future of the world.

Accordingly, the British government has informed the French government that it will agree to any equitable arrangement for the reduction or cancellation of inter-allied indebtedness, but that such an arrangement must be one that applies all round. As you know, the representatives of the Allies and of Germany are meeting at Geneva in a week or two to commence discussion on the subject of reparations. . . I should very much welcome any advice which you might feel yourself able to give me as to the best method of securing that the whole problem could be considered by the United States government in concert with its associates at the earliest possible moment that the political situation in America makes it possible.

Briefly, a proposal to reduce the reparation claims of Great Britain, France and others upon Germany in proportion as their debts to the American Treasury were forgiven. For Great Britain to forgive France her war debt in order that France might forgive Germany would be a one-sided arrangement. British public opinion would not accept it. But for the United States to forgive Great Britain, France, Italy, *et al.*, their debts in order that they might forgive Germany—that would be one-sided only at the expense of the rich American taxpayer; and this to Lloyd George seemed quite feasible. Great Britain and France to forgive and be forgiven. The United States only to forgive. There were no offsetting

debts against us to be forgiven. Why this was so has been forgotten. The Allies might well wish to forget it.

To this letter from Lloyd George, President Wilson replied as follows:

> It is highly improbable that either the Congress or popular opinion in this country will ever permit a cancellation of any part of the debt of the British government to the United States in order to induce the British government to remit, in whole or in part, the debt to Great Britain of France or any other of the allied governments; or that it would consent to a cancellation or reduction in the debts of any of the allied governments as an inducement toward a practical settlement of the reparation claims. . . You will recall that suggestions looking to the cancellation or exchange of the indebtedness of Great Britain to the United States were made to me when I was in Paris. Like suggestions were again made by the Chancellor of the Exchequer in the early part of the present year.
>
> The United States government, by its duly authorized representatives, has promptly and clearly stated its unwillingness to accept such suggestions each time they have been made, and has pointed out in detail the considerations which caused its decision. The views of the United States government have not changed, and it is not prepared to consent to the remission of any part of the debt of Great Britain to the United States. . .
>
> The United States government entirely agrees with the British government that the fixing of Germany's reparation obligation is a cardinal necessity for the renewal of the economic life of Europe, and would prove to be most helpful in the interests of peace throughout the world; however, it fails to perceive the logic in a suggestion in effect either that the United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the allied governments to induce them to fix such obligation at an amount within Germany's capacity to pay.

Thus the great plan failed. The United States could not be persuaded to pay German reparations. Not then. Not yet. Two years later, on August 1, 1922, the British government posted the celebrated Balfour note to its debtors. In this note it called upon them to pay Great Britain because the United States expected Great Britain to pay, and then it added, speaking for itself, that it had been willing "to abandon all further rights to German reparations and all claims to repayment by the Allies, provided that this renunciation formed part of a general

plan by which the great problem could be dealt with as a whole."

This meant a chain of debt cancellation running from the universal creditor to the ultimate debtor—from the United States to Germany; Germany to be let off; Americans to pay.

Immediately after the Balfour note the English, for the sake of the pound sterling, settled their debt at the United States Treasury for eighty cents on the dollar and began to collect and pay. But the propaganda for cancellation has never ceased. It has overlaid the original question with a deposit of emotionalism, real and artificial, in which occur extraordinary examples of how Americans may be acted upon by the passion to inhabit the foreign point of view.

There is a kind of question that may be conceded to the sphere of propaganda, because from its nature it must be debated and decided without reference to the facts, as an act of faith, generosity or sacrifice. In the debt controversy there is one other question of that character. But merely to state it nakedly is a scandal. The question is: Shall Americans pay Europeans not to dislike them?

If this is not the question, then there is no sense whatever in all that part of the cancellation propaganda which goes on and on to say that whether we are right or wrong, whether we deserve to be hated for our debt policy or not, no matter what the facts are, regardless of anything we know about our own motives and intentions, yet nevertheless there is the situation. We are hated. We are called Shylock. The love of Europe has departed from us, and this is intolerable. For some paltry dollars, can we afford to bear the dislike of Europe, however unreasonable it may be?

The forty-two Columbia professors, now calling for a revision of the debt settlements according to the original Lloyd George formula, ask: "Can any thoughtful American view with indifference the growing odium with

which his country is coming to be regarded by our European associates?" And all, they add, for "payments that could at best mean a paltry gain for most American taxpayers," which, nevertheless, "mean to the overtaxed debtors a crushing burden."

Well, taking it all in the round, the American Debt Funding Commission has forgiven, canceled, wiped out one-half the whole European debt to the United States Treasury.

The present cash value of all the settlements, including the one pending with France, is, roughly, one-half the amount our debtors borrowed. This is to say—in case one is unfamiliar with the term "present cash value"—that if you had in your hand all the bonds issued or to be issued by our European debtors to the United States Treasury in liquidation of the notes they gave during the war, you could cash them, theoretically, for one-half the amount they borrowed. Actually you could not cash them for anywhere near that one-half figure, for the one reason among others that they are attacking the settlements as usurious and saying they should not be obliged to pay.

Notwithstanding cancellation of half the debt, the odium continues to rise. It is a gaseous commodity the Europeans manufacture in unlimited supply without cost, more than the cost of propaganda. They have in stock $5,000,000,000 worth more of it to sell. This is a figure to represent the remaining half of their debt to the American Treasury.

Suppose we should cancel that remaining half. What then? Would the odium laboratories go out of business? Would the Europeans like us again? Or would they begin to talk of the oppressive weight of the American loans that have been made to them since the war, and continue to be made at the rate of $750,000,000 a year by private investors through Wall Street? These are loans to industries, which are economically productive;

they are loans, besides, to municipalities, to states and to governments for purposes productive and nonproductive; purposes social, political and militaristic. They have spent the money for unemployment doles as a defense against bolshevism, for public works, to subsidize housing and agriculture, to exploit their colonial possessions and to mend their money.

The annual burden of these loans is already much greater than the burden of war-debt payments to the United States Treasury—two or three times greater, and growing. On this head they have not complained, not openly at any rate, for they wish to go on borrowing, and they are paying the interest with borrowed money. Yet already one will hear in Europe, read in the European press, that Americans are financial imperialists seeking to enslave the world with loans; that our interest in peace and disarmament is a selfish economic hypocritical interest.

It is permissible for anyone to hold that we should pay German reparations who thinks our contribution to the war, no matter what it was, was not enough; it is permissible equally for one to hold for a cancellation of war debts who thinks the love of Europe may be thus secured and that this is of more importance than any American principle. But in either case it is an emotional conclusion, clear enough as that, until the attempt is made to draw facts into it. There confusion begins.

You might suppose that if forty-two Columbia professors, teachers of economics, business, law, history and political science, were thinking to put their hands to a public statement calling for a reconsideration of the war-debt settlements by an international conference, on the ground that the American settlements were wrong, it would occur to them to examine the facts in a critical spirit, if only for the sake of being able to say afterward what it was they were doing—pronouncing adverse judgment upon the American debt policy from the record or

expressing an idealistic conception of the country's duty to the world. Either they did not know the record or they held themselves above it. What they did was to take over the whole European argument for cancellation, including the Balfour note and one idiom direct from Lloyd George's cancellation letter to Mr. Wilson. Lloyd George said Great Britain could forgive nothing except as "part and parcel" of all-around forgiveness. The Columbia professors say the American debt settlements are "part and parcel" of a whole network of settlements. That is precisely what the American government says they are not.

Since the paper of the forty-two Columbia professors, ceremoniously delivered to the public mind on December twentieth last, is a fair epitome of pro-European propaganda, and repeats all the principal misrepresentations of fact with no merit of originality, it may very well serve as the text for debt cancellation; over against it the facts: (a) as to the nature of the contract, (b) the transactions in character, (c) the settlements, their ground and meaning, and (d) our share in the war.

In the first thing, as to the nature of the contract, the Columbia professors say:

> From the record of debates in Congress it is clear that these advances were not regarded by those who voted them as business transactions, but rather as joint contributions to a common cause.

This is to suggest that although the Allies borrowed the money, we did not lend it; the idea of repayment was dim or not present; the giving and taking of promissory notes which were to be replaced by the bonds of the foreign governments, the charging and paying of interest from the beginning, the keeping of books—that was all a kind of pleasantry for which there was somehow the leisure on both sides in the midst of war.

You may find almost anything in the debates of Con-

gress. But among those Columbia professors are teachers of law who certainly know the fundamental rule that when an act of Congress is clear in its language, then the act itself and not what was said about it must be taken as conclusive evidence of what was intended by those who voted it. In this case the law is precise and clear.

It did not authorize the United States Treasury to make joint contributions to a common cause. Nor did it authorize the Treasury to advance money to our associates. That is not what it said. It authorized the Treasury to sell Liberty Bonds and invest the proceeds in the bonds of foreign governments engaged in war against enemies of the United States, up to $10,000,000,000, provided such bonds as were purchased from foreign governments bore the same rate of interest and the same terms of maturity as our Liberty Bonds. The idea was that the foreign government bonds should be in all respects parallel to Liberty Bonds, so that as they matured and were paid, equal amounts of Liberty Bonds should be automatically redeemed; and so, too, that in the meantime the interest received from the foreign governments should pay interest on the Liberty Bonds issued for that purpose.

This was all definitely understood at the time. The borrowers particularly understood it. There was never any complaint on their part about the terms, never any suggestion that these were other in character than financial operations between governments. The only difficulty was that they were in great haste to have the money. It takes time to engrave and prepare bonds. For that reason the American Treasury accepted, in lieu of bonds, their notes of hand—that is to say, their I.O.U.'s; but in every case such note bore on its face a precise undertaking to furnish the bond as required by law when the Secretary of the Treasury should ask for it. The Secretary of the Treasury did not ask for the bonds while the war continued; he went on taking the bor-

rower's promissory notes, and that is why in the end the Treasury turned up with notes instead of a formal investment of $10,000,000,000 in the bonds of foreign governments such as they would have had either to pay or repudiate.

It is important to remember that the borrowers regarded the loans as financial transactions, not as subsidies or joint contributions. They were happy to have a place where they could sell an unlimited amount of bonds.

On April 11, 1917, the American Ambassador to France cabled this message to the Secretary of State:

> The French Premier personally expressed to me the hope that no resolution would be introduced or debated in Congress tending to make a gift to France from the United States, however much the sentiment of good will prompting it might be appreciated by the French people.

Loans they were thinking of, and thinking of them as high financial transactions.

Late in 1917 the French Minister of Finance, bringing in the budget, said:

> The adherence of the United States to our cause permitted us to dispense in a very large measure with the exportation of gold and securities to which we had been obliged to have recourse, gave us the possibility of sparing those reserves resulting from the patriotic fervor of our people, enabled us through the issuance of treasury bills to realize almost one-half of those sums which we were obliged to borrow in foreign countries, and this entire amount, except a minute fraction, is repayable only at the conclusion of hostilities.

A lively exchange occurred between the French Ambassador in Washington and his government as to the period of amortization, or the spread of years for the repayment of the principal. He had cabled to his government, saying:

> The rate of interest will be the same that the United States government will be able to obtain. This interest, by the terms of the law, shall be paid by all the allied countries concerned. As to the term for repayment, I mentioned—supposing this to be desirable—that of fifteen years. Mr. McAdoo said he had no objection to that.

The French government evidently asked him to make it twenty-five years, for a few days later the French Ambassador cabled again, saying he wished his government would make up its mind and be precise; however, he would do his best to make the period twenty-five years. In reply to this he received a cable saying the French Minister of Finance insisted that the term of amortization be thirty years. The longer the easier, of course. Note that in the settlement now pending with France the period is stretched to sixty-two years.

Here a curious fragment inserts itself. France was the heaviest borrower at the American Treasury after the armistice. On March 8, 1919, the Treasury addressed to the Deputy French High Commissioner at Washington a note indicating its surprise to read that at a meeting of the financial drafting committee appointed by the Council of Ten at the Peace Conference, representatives of the French government had favored the idea of discussing a plan to pool all war debts; and to make itself very clear, the Treasury added that it could not go on making loans to any government "which is lending its support to any plan which would create uncertainty as to due repayment."

The Deputy French High Commissioner communicated this information to Paris and was instructed by the French government to say to the United States Treasury please not to mind what it read in the papers or anything an excited Frenchman might say in his own parliament. Positively the French government had never given the slightest support to any such idea. On this the United States Treasury continued to make postarmistice loans to France; after this the French government borrowed $690,000,000 more.

When we entered the war in April, 1917, allied finance was about to collapse under the strain of making payments in neutral countries. The great pound sterling was in trouble. Like the French, though on a much

larger scale, the English had been exporting gold and pawning and selling their foreign investments.

The errand of the British Commission that immediately arrived here was not to solicit subsidies or joint contributions; it was to sell British bonds to the American government for dollars. The benefits of being able to do so seemed then miraculous. A padlock on the Bank of England's gold bin. No more selling and pawning of the British people's foreign investments. Dollars for every purpose and without stint, even, as it developed, to reduce the British government's borrowing from its own people. Dollars at cost—at what it cost the American government to raise them.

Interest was charged and paid from the beginning. As the interest came due on the foreign governments' notes in the Treasury safe, it was paid with more dollars borrowed from the Treasury till. This was done to keep the account in punctilious financial order. When, after the armistice, the till was closed to them they ceased to pay interest; but that is another matter.

Finally, evidence that the borrowers regarded the loans in a financial light is to be deduced from the use they made of them. Much of the money they spent in ways that could be justified only on the assumption that it was theirs to do with freely what they liked because they meant to repay it in full. They spent it for such purposes, among others, as to pay off old debts, to pay one another back, to finance the private purchases of their nationals, heavily to feed and clothe their civilians, and particularly to give their own money a fictitious buying power at the expense of the United States. Certainly no one wishes to think they would have spent in such ways money representing a joint, unrepayable contribution to the common cause of war.

So much for the nature of the contract as both sides understood it originally.

Say the Columbia professors: "The credits were

freely given because thy were to secure for us effective support for our own effort either directly on the field of battle or indirectly by strengthening the nations associated with us. They would have been justified for no other purpose." In another paragraph, referring to the fact that half the debt has already been canceled, they say this "is, nevertheless, regarded by the debtor nations as not touching the heart of the issue. They hold in mind chiefly those credits which were used to wage war. They contend that they should not in fairness be required to repay advances that were expended for our benefit as well as their own at a time when money was our only contribution."

There was never a time when money was our only contribution. The thought is absurd and stultifying. In the moment of declaring war we began to mobilize our fighting power. Eighteen months later we had on the front against Germany more men than any other nation, excepting only France, and in a few months more we should have had more men in the line than Great Britain and France combined. And all the time we had been making also these colossal advances to the Allies. Take it they were spending the money for our benefit as well as their own? Concede it freely. But were not our expenditures for their benefit as well as for our own? Why does this argument run always one way? Are we to be charged for time because, first, our normal life was not on a war basis, and secondly, because we had to cross the ocean to get to where the war was?

However, this would run to argument without end. We are still dealing with facts.

The Columbia professors appear to be supporting the moralistic view that Allies and Associates ought not strictly to charge one another for things contributed to a common cause. Really, they are not. Under the pretense or delusion of supporting it, they are holding the preposterous European view that one country, because it is rich, should both give and pay—the view that the

United States should give of its own things and pay besides for the things it required from the others.

Nowhere in their paper do they touch the disagreeable truth that during the war the United States was excluded from the benefit of commons. What the Allies needed from their American associate they got on credit; what we needed from the Allies we got for cash. We could not get it in any other way.

The goods and services they required from us, and got on credit, they now propose to treat as things used for our benefit as well as theirs, in a common cause, and therefore not in right feeling repayable. The goods and services we required from them—from England, from France, from all parts of the British Empire—they have already treated as things used for American benefit only. As they supplied them, they demanded the cash.

The significance of this fact is both moral and financial. No pulpiteer for debt cancellation touches it. It is too awkward. Therefore it gets no publicity. Let us follow it through.

From the beginning of the war allied finance was governed by a definite principle. Great Britain imposed it, and it was sound. In technical phrase, the principle was that each of the Allies should provide in its own country the means to finance whatever it was needful for the others to buy there. This meant that when France bought supplies in Great Britain, the British government undertook to lend her the pounds to pay with; and that when Great Britain bought supplies or services in France, the French government undertook to lend her the francs to pay with; and so all around.

One merit of this principle was that it avoided the wild confusion in exchange that would have resulted from buying and selling one another's money, the British buying francs to spend in France, the French buying pounds to spend in Great Britain, and so forth. It was really more than that.

It was, in effect for the duration of the war, a rule

of commons, whereby each country was obligated to supply out of its own resources and on its own territory such goods and services as its Allies required. Lending one another the money to pay with was a way of keeping count. In the end, after the war, they might all come together, balance credits against debts and settle only the differences by some rule of equity.

So far as allied finance was concerned, this principle acted to the end. We found it acting when we entered the war. We accepted it. But it acted for us only in one dimension. It obligated us; at the same time we were excluded from its benefits.

We undertook to lend our associates the dollars for all the goods and services they wished to buy in this country, and we did it; but Great Britain and France refused to deliver us the goods and services we required in those countries—except for cash. They borrowed dollars to meet their expenditures here; we bought pounds and francs to meet our expenditures there.

Thus it was that when the war was over the Allies owed us for everything they had got in the United States for the common cause. We owed them nothing for what we had got in their countries for the same common cause. We owed them nothing because we had already paid.

Great Britain owed us for the meat and grain we had supplied to feed both her civilians and her soldiers. We did not owe Great Britain for anything our sailors and soldiers had eaten in her country.

We had already paid their board.

Great Britain owed us a large bill for railroad transportation. We did not owe Great Britain the $90,000,000 she had charged us for transporting American troops to France.

We had already paid their passage.

Great Britain owed us for cotton, oil, copper, steel and munitions. We owed the British Empire nothing

for the wool, tin, jute and minerals that we had bought for our exertion in the common cause.

We had already paid.

Great Britain owed us for all the dollars she had spent in the United States. We owed her nothing for the pounds sterling we had spent in England or anywhere in the British Empire.

We had bought those pounds for cash.

The British financial experts in New York were using dollars borrowed from the American Treasury to support the international value of the pound sterling at the artificial figure of $4.76 7/16. When we bought pounds to meet the expenditures of our army and navy in Great Britain, we were obliged to buy them at that artificial price of $4.76 7/16. We bought nearly $500,000,000 worth at that price in England alone, and the profit to the English in these transactions was more than $50,000,000. All this is merely to say that while the British were borrowing dollars at the American Treasury for their expenditures in the United States, they required us not only to buy pounds sterling to meet our expenditures in Great Britain; they required us to buy them at a loss in exchange.

When it was over, France, like all the others, owed us for everything she had got in the United States during our association in the war. Like England, she owed us for the grain, sugar, meat and tobacco she had imported from the United States both for the French army and for resale in France to the people. We owed France nothing for what American soldiers had eaten and smoked in France.

We had already paid.

France owed us a large bill for railroad transportation. We owed her nothing for hauling our troops to the front on the French railroads.

We had already paid their fares.

We did not owe her the item of $489,000 port dues that was charged against us for the privilege of taking our troop and supply ships into French harbors. We had already paid.

We did not owe her for the damage our troops had done to French houses and fences and trees and gardens. We had already paid these torts and indemnities.

We did not owe her $150,000,000 customs duties on the surplus war supplies surviving in France at the end of the war, such as trucks, motors, industrial material, machinery, permanent works, telephone lines and what not. We had already paid.

We owed her nothing for the paper francs she had printed and delivered to us for the use of our army in France. We had already paid $1,000,000,000 cash for those paper francs. The French, like the English, made an exchange profit on the money they sold to us. Like the English, they were using borrowed dollars in New York to support the international value of the franc at an artificial price. We paid that artificial price for the francs we needed in France and the profit to the French—the difference between the true value of the franc and what we paid for it—was a little more than $250,000,000.

Does it begin to appear why it was that the United States turned up at last as the universal creditor, owing nobody? Not because we were rich; not because we had bargained shrewdly or treated the war as a financial opportunity, as the Europeans say, but only because we had already paid.

For our own exertion in the war we had required from the British Empire goods and services amounting to $2,500,000,000. For these we had paid in cash.

Great Britain for her exertions had required of us goods and services to the amount of nearly $3,750,000,000; this she had borrowed, and $500,000,000 more after the armistice.

Our War Department, first and last, had required

goods and services in France to the value of $1,750,000,000. For all of this we had paid in cash.

France had required of us goods and services to the amount of $2,000,000,000; all this she had borrowed, and $1,000,000,000 more after the armistice.

Every day of our participation in the war we were in the position of paying cash to the Allies. We were lending them dollars with one hand and paying them dollars with the other. When we needed pounds sterling in England or francs in France it never occurred to them to say, "We will lend them to you against the dollars we are borrowing in Washington." Instead, they sold them to us for cash.

When it ceased, the situation as between the United States on one side and the Allies on the other was this: They had borrowed from us $9,500,000,000 and we had paid out in their countries $4,250,000,000—total $13,750,000,000. We had their I.O.U.'s for $9,500,000,000 and were out, besides, the $4,250,000,000 we had spent with them—total again, $13,750,000,000.

Remember that a very large proportion of this $13,750,000,000 represented things of permanent economic value, not consumed in war, such as plant, equipment, stocks, ships and raw materials. Remember also that more than $2,000,000,000 of these loans was made after the armistice. The measure in which Europe's astonishing recovery from the war is owing to American prodigality cannot, of course, be calculated statistically. Is it for that reason our debtors never mention it at all?

The Columbia professors do remark that "not all of our loans were used directly for military purposes. Some of them helped to clothe and feed the civilian populations. Some provided permanent improvements useful after the war. Some of the loans were made after the armistice." But they add: "In the debt settlements we have made, insufficient account has been taken of those differences. The origin of the various items in the debts was ignored.

In justice and in reason, they should have been considered."

What they mean to convey here is the European argument that we ought not to charge for goods and services used by the Allies in a war that was our war, too, and that as the debt settlements stand we have done it. Actually, we have not done it. To say, moreover, that the origin of the various items of the debt was ignored is an aspersion. There is no member of the American Debt Funding Commission who could not recite the figures out of his head from having considered them so long. In a public statement last July the Secretary of the Treasury, as chairman of the Debt Funding Commission, said:

> It must be remembered that England borrowed a large portion of its debt to us for purely commercial as distinguished from war purposes—to meet its commercial obligations maturing in America, to furnish India with silver, to buy food to be resold to its civilian population and to maintain exchange.

They speak of reason, the Columbia professors. It is not necessary really to regard the ways in which the money was spent to draw a line of reason. Suppose we should say to our associates, this: "Not to higgle over the nature of our war expenditures, let us apply the liberal rule that all goods and services by whomsoever provided shall be deemed to have moved one cause for the common benefit, and therefore uncharge one another all around."

Would they accept? They would not. Why not? Because they owe us for the goods and services we supplied; but for the goods and services they supplied to us they have already been paid in cash. Now if you propose to uncharge all around under the ideal rule that goods and services devoted to a common cause shall not be paid for, it means that we should have only to pass a sponge over their debts, whereas they would have to refund what we have paid to them; the British Empire more than $2,500,000,000. France at least $1,750,000,000. Add to

these sums the money they borrowed from the American Treasury to pay off debts contracted before we entered the war and the money they borrowed after the armistice, and you have an indisputable aggregate greater than the sum of the debt settlements as they stand.

Who talks of injustice here talks nonsense.

In such light the distinction between uses of money that were commercial and uses that were military loses much of its interest. And yet it is important to see how they did spend the money.

Great Britain's total demands upon the American Treasury for dollars amounted to $7,250,000,000. From this great sum there is first to be deducted nearly $2,000,000,000 to represent purchases made by Great Britain for her Allies. These purchases were taken off her account and charged directly to the other countries. That leaves Great Britain's own account standing at $5,250,000,000. Out of this she kept $1,000,000,000 for goods and services supplied to Americans in England. The balance owing to the American Treasury was $4,250,000,000.

How did she spend the money?

In her reports to the American Treasury the largest item of expenditure was $2,500,000,000 for grain and meat. This was both for herself and for others; for that part of it which was for others she was reimbursed by the Treasury. It is important to remember that the foodstuffs bought in this country with borrowed dollars were resold by the British government to the people of England, and resold at a profit—all but the portion that went directly to feed the army. Thus dollars borrowed in the United States to buy food were converted at home into government revenue—war revenue—and in exactly the same amount the British government was able to avoid taxing its people or increasing the internal debt for war purposes.

Great Britain's principal other expenditures, as reported to the American Treasury, were these:

For silver	$261,643,000
To pay Canada back	325,000,000
For maturities	353,000,000
For munitions	981,000,000
For cotton and exchange purchases . .	1,681,000.000

Item, for silver $261,643,000, represents silver loaned to her out of the vaults of the American Treasury to support the currency of India.

Item, to pay Canada back $325,000,000, represents dollars borrowed to pay a British grain debt in Canada.

Item, for maturities $353,000,000, represents dollars borrowed to pay off a Wall Street war loan contracted before we entered the war—a private loan under which British securities were pawned as collateral. The American Treasury paid it off and released the collateral.

Item, for munitions $981,000,000, is self-explained. This figure represents munitions for the use of Great Britain only; she bought also munitions for her Allies, but for these expenditures she was reimbursed. That is, she got the money back.

Item, for cotton and exchange purchases $1,681,000,000, is where the mystery begins. The British so reported it in one grand sum—no analysis. All the American Treasury knows is that this is the money used by the British government's financial experts to support the international value of the pound sterling at $4.76 7/16, where it stood, pegged, through the remainder of the war

What they did was this: Instead of spending their borrowed dollars for cotton and other things, they used the dollars in the exchange market to buy the pound sterling and then paid for their purchases with pounds, both here and in neutral countries. One effect of this was to increase by one-eighth the purchasing power of the pound sterling all over the world. That was not the only effect. The French, taking it from the British, were doing the same thing on a smaller scale—that is, they

were using borrowed dollars in the foreign exchange market to buy and uphold French francs. These British and French operations naturally put a great strain on the exchange value of the dollar. That was not all. The American government, having been excluded from the rule of commons, could not borrow pounds in England and francs in France to pay for the goods and services we required in those countries, although at the same time it was lending them dollars to pay for the goods and services they required here.

No. The American government was obliged itself to go into the foreign exchange market and buy pounds to spend in England and francs to spend in France; it was obliged also to buy the money of various neutral countries where it was meeting war expenditures for both itself and the Allies. The result of all this was that the dollar, the only sound money at that time among the belligerents, went to a discount all over the world. This discount was artificial, roughly in the same proportion as the superiority in the value of the pound sterling and the franc was artificial; nevertheless it was a fact. In the Netherlands, the dollar was worth only 76 cents; in Denmark, 75 cents; in Sweden, 63 cents; in Switzerland, 76 cents; in China, 55 cents.

The loss to the United States from having to pay for its imports with a dollar that had been artificially depreciated in order that the pound sterling might stand mightily at its pegged valuation of $4.76 7/16 was, on statistical evidence, $400,000,000. The gain to Great Britain from being able to buy in all countries with a pound sterling supported at the expense of the dollar was not less than $350,000,000. These two items make $750,-000,000, our loss and their gain, and it is never mentioned.

When these dazzling British financial operations ceased—that is to say, when, after the war, dollars with which to buy pounds sterling were no longer available—

the international value of the pound sterling fell from $4.76 7/16 to $3.19.

Now France. The total demands of the French government upon the American Treasury for dollars amounted to $4,196,000,000. Of this sum she kept $1,198,000,000 to represent the value of the goods and services provided for the American Expeditionary Forces in France. That left her owing the Treasury almost exactly $3,000,000,000. These figures do not include certain large and very elaborate settlements made on the spot in France by our military people and by the United States Liquidating Commission. Those settlements involved, among other things, surplus war stocks valued by our experts at $562,000,000; they were turned over to the French for $400,000,000. The difference represented the $150,000,000 customs duties demanded by the French.

The principal expenditures reported to the American Treasury by the representatives of the French government were these:

For munitions	$925,893,000
For foodstuffs	850,716,000
For exchange operations	431,787,000
For maturities	289,745,000
For other supplies	276,572,000
Advances to the Bank of France	200,000,000
Cotton	174,843,000
Shipping	122,359,000
Tobacco	41,000,000

Item, for munitions $925,893,000, includes engineering, cavalry, clothing and equipment, aviation, sanitation, artillery, explosives.

Item, for foodstuffs, $850,716,000, represents grain, meat and sugar.

Item, for exchange operations $431,787,000 is the third largest. Those are the dollars that were used in the foreign exchange market to sustain the international value of the franc. Like the English, the French experts, instead of spending the dollars for goods and serv-

ices in this country, used them to buy franc exchange, and then with the franc exchange they did anything they pleased, even to finance the private purchases of their own nationals.

Item, for maturities $289,745,000, represents dollars used to pay off private war loans contracted in Wall Street before we entered the war.

Item, for other supplies $276,572,000, includes $108,350,000 spent for public works in France, $12,000,000 spent in aid of French agriculture, $40,000,000 spent on state and private railways in France, and $7,000,000 for commerce and private industry.

Item, for the Bank of France $200,000,000, represents money advanced to improve the credit of that institution and to buy foodstuffs in the United States after the declaration of peace.

Item, shipping $122,359,000, represents principally ships added to the French merchant marine.

Putting aside munitions which were, of course, directly used to wage war, even though embracing machinery of permanent peace value, then once you begin to discuss which expenditures did and which did not contribute to the end in view, you become interminably involved. Anything tending to improve the well-being and morale of the people, even relief from the anxiety of debts contracted in Wall Street before we entered the war or the sight of the franc holding its international value, might be held to have increased the odds for victory.

In the debt settlement with France, however, all doubt is resolved in her favor. There could be no doubt about the postarmistice loans. They were not used to wage war. And, roughly, the settlement now pending represents only the value of our postarmistice loans to France at 5 per cent interest. The whole debt as to things supplied to her in the United States during the war is canceled.

The Columbia professors object to the rule that governed the debt settlements. The rule was that as no country could very well afford to pay in full, each should be treated according to its capacity to pay. That formula, say the professors, has a cruel sound; it seems to imply that the exaction is according to the full capacity to pay, and the injustice of it, they add, is "evident when one compares the various settlements and notes the wide discrepancies in liberality. On a 4.25 per cent basis France is to pay only 50 per cent, Belgium 54 per cent, of the whole debt, interest included; Great Britain is to pay 82 per cent and Italy pays only 26 per cent."

If there is injustice in the fact that France suffered physically more from the war than Great Britain, and is for that reason alone less able to pay, it is the injustice of fate.

If there is injustice in the fact that England is a much richer country than Italy, that is the injustice of God in not having made all people of one capacity alike, with equal measures of coal and iron. The American Debt Funding Commission had nothing to do with it.

Taking the facts as they were, should it have asked Italy to pay four-fifths of her whole debt or Great Britain to pay only one-quarter of hers?

Not one of the debtors says it cannot pay. They all say it is hard to pay and that the United States is hateful for expecting them to pay.

The Columbia professors evidently think England pays too much. They return to that thought in another place, saying: "We have said nothing of the special reason for moderation in our claims for repayment from Great Britain growing out of the loans she was making to our continental associates, also mainly to permit of more vigorous prosecution of the war, nor of her declared willingness to forgo repayment from them in exact proportion to the extent that we relax our demand for repayment from herself."

This is again the thesis of the celebrated Balfour note. It is the foundation of Great Britain's propaganda for debt cancellation. In the Balfour note, the British government, arguing for cancellation all around at the sole expense of the United States, said its liabilities to the American Treasury were incurred for others, not for itself, and this was because the American government had insisted, in substance if not in form, that although Great Britain's Allies were to spend the money, it was only upon British security that we were prepared to lend it. When the American Ambassador called upon the British government to repudiate this injurious invention, Lord Balfour replied, saying what he meant was that if the Americans on entering the war had done as Great Britain asked them to do, and that was to do all the lending, then Great Britain herself would not have had to lend anything more and would not have had to borrow in the United States. Well, this is only to say that if the American Treasury, besides lending the Allies everything they required in the United States, had at the same time loaned to Great Britain's Allies the money to buy from Great Britain the goods and services they required of her, then England would have had dollars from them round-about to spend for herself in the United States. Quite so. If the United States had paid the whole cost of the war from the time she entered, it would have been much easier for everyone else.

British propaganda for debt cancellation has been more effective in this country than any other. It informs and permeates all argument on that side of the question The insincerity of it is to be explained by the fact that Great Britain's attitude toward the United States is complicated in a deep psychic sense.

It is true that of all the countries to whom we loaned money during the war England undertakes to make the largest repayment—say, 80 per cent. The Columbia professors, not to err on the wrong side, say 82 per cent

Lord Curzon said it was only 74 per cent, and that the amount canceled was $1,250,000,000.

But it is also true that the British themselves came to us proposing this settlement, saying it was what they could afford to pay. There can be no doubt as to this. When we entered the war Great Britain had already sold or pawned one-third of her ancient investments in American railways and industries.

Our loans enabled her to get back what she had pawned and to save the rest. As a measure of her ability to pay, one may notice that the annual income derived from the American investments that were saved to her by our loans would pay her account at the American Treasury. That account calls for less than $180,000,000 a year.

There are other measures. Last year the British Chancellor of the Exchequer said: "We have still, it is calculated, £3,000,000,000 of foreign investments, the interest on which is calculated at £220,000,000 a year."

That is more than five times her annual obligation to the American Treasury under the debt settlement.

The *British Board of Trade Journal*—official—says Great Britain's income from foreign investments has been as follows: In 1923, £200,000,000; in 1924, £220,000,000; in 1925, £250,000,000. The annual amount owing to the American Treasury is less than £40,000,000.

The Midland Bank, Ltd., of London, estimates Great Britain's annual exportations of capital as follows: In 1924, £134,000,000; in 1925, £88,000,000; in 1926—for ten months—£97,000,000. This capital was exported by Great Britain in two years and ten months while at the same time she was paying her installments to the American Treasury.

Moreover, Great Britain, as a creditor country, understands the meaning of debts and has a high stake in the integrity of the debt principle in international finance. When she settled with France it was on a basis of a little

less than 45 per cent of the principal, against our basis of 50 per cent; but she demanded larger first payments. She charged France compound interest at 5 per cent, whereas we charged simple interest at 3 to 4.5 per cent. She excluded from this settlement all commercial loans, particularly her wartime advances to the Bank of France, reserving these to be settled later on a strictly business basis; whereas we included advances to the Bank of France, war stocks, postarmistice loans and prewar loans, and then halved the whole. Finally, England charged France an annual renewal tax of 10 shillings in each £1000 for the years in which nothing had been paid to her.

In settling her relief loans to various small countries, Great Britain was much stricter than we were about interest. If we had settled our relief loans to the same countries on the British basis, we should have got back $300,000,000 more.

Certainly it somehow pertains to the measure of capacity that notwithstanding all the burdens she complains of, especially that of her obligation to the American Treasury, Great Britain can still afford a cruiser program that has upset the 5-5-3 ratio of naval strength supposed to have been pledged at the Washington Arms Conference. She has thereby renewed a competition in armament which before it ends may cost Europe more than the war-debt settlements.

In view of all these facts, it cannot be supposed either that the payment of less than £40,000,000 a year to the American Treasury is a heartbreaking matter or that Great Britain, as a creditor nation herself, really misunderstands the creditor's point of view.

Then why is she so bitter? For she is bitter. Here is the psychic complication: It is not the debt that makes her bitter. That is impossible. She has made of this debt a symbol; and upon that symbol she projects all those sentiments with which immemorially she has re-

garded any power whose competition seriously threatened the supremacy of British trade.

Each nation according to its capacity to pay—that was the rule. The richest country to pay the most, the poorest country to pay the least. The Columbia professors say this principle is unjust and inappropriate. We must substitute for it, they say, "a full and frank recognition of the debt and reparation problems in an international conference."

That is precisely the British formula, the great Lloyd George-Balfour plan, to get German reparations out of the United States for the good and peace of the world.

Imagine an international conference between the United States on one side and a body of united European debtors on the other, to debate and decide the question: Shall America forgive us our debts?

Whether the United States voted yes or no would make not the slightest difference. The conference would decide it for the good of the world, meaning the world of Europe. Then the Allies would cancel out their war loans to one another, forgive Germany that part of the reparations bill they despair to collect, issue German bonds for the remainder, sell the bonds in America, divide the proceeds and send the Dawes plan home.

Sooner or later, say the Columbia professors, we shall be compelled to give consideration to "what equivalent, moral or material, has been rendered for the sums advanced."

That is what Europe says. The war did not cost America enough. No figures, no facts. It did not cost us enough, because we are rich.

Americans under the hypnosis of the European view forget that in proportion to our wealth we spent more on the war than all the Allies combined, though it was not our war to begin with. This is a result obtained by Harvey E. Fisk, the statistician, who reduces the money units of all allied war expenditures to their prewar value in order to eliminate the disparities of wartime inflation.

Our national wealth was four-tenths of the aggregate national wealth of all the countries arrayed against Germany; our expenditures were one-half the total. If the cost of war were distributed on that basis, we should be entitled to a flat refund of $2,000,000,000. That is to say nothing of the spoils of victory. We did not touch them.

What material equivalent was rendered for our loans? We paid the way of our fighting forces in the lands of the Allies; we paid the passage of our troops on British ships; we paid their fares on the railways of France, all in cash. We paid for the privilege of fighting Germany on French soil, not because we preferred that soil; that was where the Germans were. And as to moral equivalents, why always are the moral values confined to the other side? In order that we may be charged for them, for imponderables, as we were charged for everything else? Had our loans to the Allies no moral value? Is it of no moral account that but for our loans and exertions the Allies would now be paying Germany the cost of the war?

In morals and in fact, this whole controversy is fictitious. Its significance lies entirely outside the debts. If the philosophy it represents should prevail it would mean that we had been romantically wrong and England realistically right. It would mean that when you undertake to lend capital in foreign countries, your security lies in the power of your navy, not in the bond of the debtor.

CAPACITY TO PAY[8]

When M. Caillaux left the United States early in October, a sadder but a wiser man after the failure of his debt negotiations in Washington, many tongues—some great, some small—posed the question: "Has the

[8] By Christian A. Herter. *Atlantic Monthly*, 137: 113-18, January, 1926.

United States assumed the rôle of a Shylock among the nations?" And a chorus of voices from far and wide, large in volume but not impressive, was raised to answer, "Aye." Yet no sooner had the Italian debt settlement been announced than a new note was sounded. This time it was: "Has the United States suffered a change of heart? Is it so eager to avoid a repetition of the French failure that it is allowing itself to be fleeced?" And again: "Has the door now been opened so that France may expect easier terms?" The answer to those questions is not simple, but the key to their unlocking lies in an analysis of the policies consistently followed by the American Debt Commission.

When that commission, properly termed the World War Foreign Debt Commission of the United States, was created by Congress, there were imposed upon it certain specific limitations. It was forbidden to cancel any part of the capital sum of any debt; it could not negotiate an interest rate lower than 4¼ per cent; it could not extend payments beyond a given length of time; and it could reach no agreement that was not subject to ratification by Congress. Some modification of these restrictions was made at a later date when Congress increased the size of the commission from the original five members to nine, in order that representatives of the Democratic Party might sit in on its deliberations; but this modification was unimportant except as it indicated that Congress might later be willing to ratify agreements which for good and sufficient reason did not meet the minimum specifications prescribed.

The commission, in its present form, is the best assurance the American taxpayer could have that his interests are being properly looked after. With Secretary Mellon as chairman, and with experienced men like Secretaries Hoover and Kellogg, Senator Smoot, and Congressman Burton as active members, there is assured as expert a financial, economic, and political guidance as

could be assembled in any group. These men have not only a profound grounding in economics but a wealth of experience in practical business and governmental affairs. Domestic politics are a negligible quantity in their calculations, and, rumors to the contrary notwithstanding, their conferences have been remarkably free from dissension on any essential facts.

What is the direct interest which the taxpayer has in the debt settlements? During the war the American government issued bonds bearing 4¼ per cent interest, and from the money so raised it made loans to various European governments. Ever since, the taxpayer has been supplying the money to meet not only the 4¼ per cent interest payments but also the amortization charges on the bonds. In other words, the total burden which he has carried because of foreign debts has corresponded to the total amount of the Liberty Bonds issued to care for them plus the interest paid on them up to the moment of a debt settlement. His criterion of the measure of a debt settlement, then, is the extent to which that settlement relieves him of his burden; or, put in another way, his forced contribution to each foreign nation is the difference between the 4¼ per cent he is paying today on the American bonds and the amounts which are paid by that nation toward reducing its debt. All of which leads to the conclusion that the only honest way of determining the generosity or the rapacity of the American government in the debt settlements is by figuring the present value of those settlements.

Let us take first the British accord. At the time that agreement was reached the British government had borrowed from the American taxpayer, in terms of Liberty Bonds and interest, about $4,600,000,000. That sum represents the present value of the total debt. Yet, if the British taxpayer were to invest today (speaking as of the day of the settlement) in Liberty Bonds to the amount of $3,792,350,000, such bonds would over the

same length of time yield a total sum equal to the payments which the British government has pledged itself to make over a period of sixty-two years. In other words, the United States has forgiven—or, to use a stronger term, canceled—18 per cent of the total debt, calling on Great Britain to pay only 82 per cent. Eighteen per cent measures the extent of American generosity, 82 per cent American rapacity.

Applying the same method of calculation to the Belgian debt settlement, we find that 46 per cent represents the extent of American generosity, and 54 per cent American rapacity. Yet in this case the figures do not tell the whole story, because the American government waived in favor of Belgium a sum of money which, under the Dawes plan, was set aside from German reparations to meet the prearmistice debt owed the United States by Belgium. The present value of that sum, assuming that Germany pays the full amount of reparations provided for by the Dawes plan, comes to about $80,000,000. As a result, through the combined working of the Dawes plan and the generosity of the American taxpayer, Belgium is called on to pay less than one-third of her obligations to the United States.

The total Italian debt was about $2,040,000,000. The present value of the payments, as arranged in the schedule agreed to on November 2, 1925, is only $530,000,000. Consequently the American taxpayer will carry 75 per cent of the burden of the loans made to Italy, while the Italian taxpayer carries but 25 per cent. Similar calculations could be made covering the other agreements already reached. Finland, Lithuania, Hungary, Poland, Czechslovakia, Latvia, and Estonia, all have received substantial concessions, not only in the interest rate—which, together with the schedule of payments, corresponds very closely to the British settlement—but in the computation of the capital sum.

If these figures do not refute the accusation of "Shylock," then I have not made myself clear. There still remains, however, the question: Has our government allowed itself to be fleeced? The answer can best be found by examining the factors which entered into the calculations of the American Debt Commission.

II

Obviously one principle has been maintained in every settlement—the integrity of the capital sum borrowed. In each case provision is made for the repayment of that sum in annual installments over a period of sixty-two years. The annual payments begin with comparatively small amounts and are graduated upward to reach their maximum after perhaps fifty years. There is practically no variation in this formula, and any subsequent agreements that are made can be counted on to follow it. The period of years may be extended or the annuities may be varied somewhat, but the fundamental idea of the sacredness of the capital amount of an international debt will surely be maintained.

A second principle, and perhaps the most important one, is that, once the capital sum has been determined, negotiations should be confined entirely to the rate of interest to be paid, and that this rate of interest should be based upon *the capacity of each nation to pay.* Here the commission was obliged to depart from the limitations set upon it by Congress, trusting that a full review of the facts might later ensure congressional ratification. In judging the capacity to pay, two questions dominate: first, the ability of the debtor country to raise the essential money by taxation; second, the possibility of transferring the money once raised into the necessary foreign exchange. To estimate the first requires an examination into the fiscal system of a country, into the prospect of reducing expenditures and increasing taxes, and into the

prospect of increasing national wealth which would produce additional tax revenue without increasing the burden on individuals.

The transfer question brings up such matters as the balance of trade, whether more commodities are exported than imported, the character of the situation with respect to such so-called invisible items as immigrant remittances, tourist expenditures, shipping services, interest on other loans, and so forth. In every case the commission must determine how large an amount can be actually transferred without affecting the stability of the debtor nation's currency, once the latter has been stabilized.

A third element likewise entered into the calculations of the American commission. During the past century the trade of the world has doubled in value every twenty-five years. It is a reasonable assumption that this increase will continue, and, inasmuch as the settlements cover a period of sixty-two years, the commission was fully justified in basing on this factor the size of payments to be made in the future.

With these points in mind let us see just how the commission applied them in actual practice. At the time the British settlement was reached the American commission estimated that the payments agreed on would represent an increase of about 3 per cent in British taxation. They also estimated that through economies in government the British could reduce their taxes by considerably more than 3 per cent and that, as a consequence, payment of the American debt could be carried out without imposing any additional tax burden upon the individual. All of these estimates have proved correct. As far as the transfer problem was concerned, the commission recognized that, whereas the payment of the annuities required only about $160,000,000 a year, the credit balance in favor of England from both visible and invisible items came to nearly $500,000,000. In other

words, the members of the commission were convinced that payments could be made without depreciating the value of the pound, and the shrewdness of their judgment has been borne out completely. Whereas the pound was selling at a considerable discount when the settlement was made, it has now reached par in spite of regular payments to the United States. In fact, the actual process of making payments on given days has yet to stir a ripple in financial circles or attract more than a line in the financial press.

The experience with the British settlement has been a startling surprise to those learned theoretical economists who proclaimed the impossibility of England's being able either to raise the funds by taxation or to transfer them to the United States once they were raised. It has also proved a boomerang to the economists who predicted that the payment of this debt, the largest of all our foreign debts, would be accompanied by such a flood of foreign goods that it would throw hundreds of thousands of American workmen out of work. Since the day of the settlement American labor has been fully employed. The predictions may still come true, but no indication in support of them can yet be seen.

In estimating Belgium's capacity to pay, the commission took into account the facts that Belgium had recently raised her taxes to the maximum and that economies, while possible, could not be counted on for a number of years. It also recognized that payments during the first ten or fifteen years could be adjusted so as to absorb only a fraction of Belgium's reparation receipts and thereby necessitate no additional taxation. Besides these factors, in Belgium's case the transfer problem was rendered difficult by an unfavorable visible and invisible balance of trade, while the assurance given by President Wilson in regard to the prearmistice debt supplied another motive for leniency. However, in the larger pay-

ments exacted for later years the element of increasing world-trade was patently taken into consideration.

In determining capacity to pay, the case of Italy presented the greatest difficulties. Italy had taxed her people to the maximum that industry could endure. She had balanced her budget and very considerably reduced her military expenditure. She had little relief to hope for from reparations. Her population was growing without a corresponding increase in economic productivity. Her complete lack of essential raw materials—such as iron, coal, cotton, copper, and foodstuffs—threw her balance of trade heavily on the debit side. Even the large items of emigrant remittances and tourist expenditures were not sufficient to affect the unfavorable balance. Therefore initial payments of only $5,000,000 a year, increasing slightly during the first twenty-five years, were finally determined upon. Yet, even in reaching this sum, the commission had to count on a continuation of the rejuvenation in industry and economic life which has occurred in the past two years, and to some extent on the anticipation of a peaceful and progressive world.

III

A consideration of the French situation I have purposely left till the end because it is the one over which the greatest misunderstanding has arisen and in which the human and political equations have played a very confusing part. France is economically sound. Her people are thrifty and prosperous. She suffers from no unemployment. Her production is high and her standard of living is high. Being an agricultural country, she is independent of any need to import foodstuffs. She has large supplies of coal and iron, which, together with abundant waterpower, give her possibilities of a vastly increased industrial development. In territory she has regained Alsace-Lorraine and received a mandate over

vast regions in Asia Minor and Africa. She has a visible favorable trade-balance of $100,000,000 a year, and in addition she realizes at least $150,000,000 from American tourists every season. Her reparation receipts will run to about $400,000,000 per annum, so that the question of transferring funds which she might set aside for the repayment of her debt to us does not present great difficulties. Her assets, then, are very great.

France's liabilities consist in a fundamental unwillingness to tax her people to a point which, considering her economic strength, would compare favorably with the efforts put forth by either Great Britain or Italy. She is carrying on two wars and maintaining an armament far greater than that of 1914 in spite of the fact that her principal enemy has been disarmed. Her fiscal system cannot stand the strain, and no Finance Minister whom she has put in office since the war has succeeded in balancing her budget. Incompetence in the handling of finances is her besetting danger. These liabilities may seem overwhelming at the moment, but on a cool appraisal all can be shown to be transitory. If they were not, her extinction as a great power would be certain. No one who knows the great ingenuity and capacity of the French people, and the economic strength of the nation, can have any doubts as to her survival. Sometime she must attain financial stability. No debt commission that attempted to negotiate an agreement with her covering a period of sixty-two years could assume another hypothesis. And, acting upon such an assumption, no debt commission could allow the American taxpayer to carry in the future the burden of present French financial incompetence.

The failure of France to reach a settlement with the American Debt Commission in Washington was not the fault of the latter. Every criterion applied by the commission to the other nations with which it had dealt was

applied to France. Her debt amounted to about $4,020,-000,000. The American commission was willing to settle on a basis which would have ensured easy payments in the first few years, and, figured at present value, would have been equivalent to a 32 per cent cancellation. This offer was refused point-blank.

When M. Caillaux appeared in Washington, hailed as a miracle man of finance, he still felt the flush of success as the result of his negotiations with Winston Churchill in England. The tentative agreement for a settlement of the Anglo-French debt had been advertised as a triumph for Caillaux. In reality it committed France to large payments in the next ten years, at a time when France could least afford to pay, while the concessions in her favor were on later payments. Taken as a whole, it appeared to be a good settlement for the French people, but analyzed in detail it was full of unpleasant "jokers." Yet M. Caillaux's idea was to force the United States into a settlement which would conform with this agreement. He even went so far as to intimate to the press that, unless the United States signed on the dotted line, he would return at once. And then what happened? The American commission dissected M. Caillaux's proposal for him, stating just what that proposal would mean for France:—

> We find that the principles of these arrangements (Anglo-French), if applied to the debt of the United States, would imply a larger obligation upon the part of France to the United States than that contained in our proposal below. . . The net result of the application of these principles to the American debt would bring about that France should pay to the United States an annual amount of $161,000,000 for the first twenty years, and $61,000,000 thereafter for forty-two years. These payments would be altered if the annuity of $61,000,000 were deferred for the first seven years and added to the subsequent period, as discussed in London. It seems to us that those principles of repayment are infeasible to France in the application of its indebtedness to us.

The only interpretation that can be given to this statement is that the American commission refused to consider M. Caillaux's principle of settlement as properly interpreted, because it considered that offer *beyond France's present capacity to pay.*

The basis of the negotiations was then changed and M. Caillaux gave consideration to the American proposal, which followed closely the lines of the Anglo-American agreement as to the capital sum, but suggested interest payments to begin at only ½ of 1 per cent, mounting to 3½ per cent in thirteen years. The offer was rejected, several modifications of it were rejected, and M. Caillaux forced a suspension of further negotiations by insisting in the final French proposal that any payment by France must be dependent on reparation receipts—a proviso that the American commission had flatly and very properly held to be out of the question from the beginning. A five-year modus vivendi was finally agreed to, whereby France promised to pay the sum of $40,000,000 per year—an amount which Caillaux stated to be within her capacity to pay—and whereby negotiations were to be resumed at the end of that period. Even that temporary settlement has been refused approval by the Finance Committee of the French Chamber. This may be accounted for as a vote of lack of confidence in Caillaux, but it is more probably the effect of the failure of a definite agreement on French credit in the money marts of New York and London. France will probably be looking for a final settlement soon. That she can ever get from the present Debt Commission easier terms than those which were offered her this year, provided that the principle of capacity to pay is maintained, I very much doubt. The American taxpayer will make sacrifices—even 75 per cent sacrifices, as in the case of Italy—if he can be convinced by some such body as the Debt Commission that the sacrifice is just as well as generous; but he

will not be *bludgeoned into surrending what is rightly his when the debtor is able-bodied, productive, and fundamentally solvent.*

This whole discussion is based on realities, and all *sentimental considerations* have been scrupulously avoided. That the latter may loom large in the minds of many people cannot be denied, but one essential fact should never be forgotten. The American Debt Commission was created by Congress as a collection agency; it assumed a solemn trust to act on behalf of the American taxpayer, and to lighten so far as possible the burden he has been carrying. In the fulfillment of that mandate, capacity to pay—a straightforward, businesslike, unsentimental estimate of capacity to pay—is the only sound criterion. Voices will always be raised accusing the United States of being rapacious on the one hand and a shorn lamb on the other, but those voices will have to await the passing of many years before a judgment can be reached as to whether their echo rings true.

THE JUSTICE OF THE AMERICAN SETTLEMENTS[4]

The two official statements by eminent financiers and Cabinet members of the two English-speaking nations are to all appearances contradictory, but both are accurate in their citation of facts. The chief contentions are caused, as Mr. Mellon points out, by divergent methods of bookkeeping, by the impossibility, and inexpediency in the British case, of including all pertinent facts involved in a discussion of interallied debts within the limits of a few thousand words.

Victorious nations, from time immemorial, have placed the burden of war expenses upon defeated adversaries by appropriating wealth and lands or by levying

[4] By Conrad Clothier Lesley, engineer, student of international questions. *Current History*. 26: 589-97. July, 1927.

indemnities. The United States, though a victor, is paying for its stupendous war expenditures [5] by self-imposed taxation in the manner so creditably undertaken by both the Democratic and Republican régimes during and since the war, without recourse to indemnities or appropriations from its defeated foe [6], while allied nations acquired valuable property additions, German shipping and many contract and treaty rights formerly possessed by Germany, and are receiving reparations in increasing annual amounts with which partially to reimburse themselves.

Great Britain, France and Italy, during the war and even after the armistice, fully expected to recover their entire war costs from the central powers, but they finally acknowledged this to be impossible. In order partially to relieve their respective countries from the portion Germany was unable to pay, allied diplomats searched diligently for some method to reduce their debts. They could not repudiate internal bonds, for citizen owners would immediately eject them from office; so they looked across the Atlantic to the one country among the victors that had paid its way during the war, saw that it was the chief creditor nation and endeavored to shift the major portion of their external debts on the United States.

In order that this manoeuvre would not be tainted by a suspicion of repudiation of legally contracted debts, willingly loaned by a friendly nation, Lloyd George, Austen Chamberlain, Lord Balfour and other officials suggested a general cancellation of interallied war debts

[5] A balance sheet of American war costs shows that the government of the United States spent on a warrant basis from June 30, 1916, to June 30, 1925, $52,000,000,000 in excess of normal peacetime expenditures, allowing for average increases in cost of government. It is also spending $500,000,000 annually for veteran care, which is equivalent to a capital loss of an additional $10,000,000,000.

[6] The United States will only receive indemnities for losses incurred while a neutral, such as damages for lives lost on the Lusitania, claims passed by the American-German Mixed Claims Commission, and small annual payments through the Dawes plan as reimbursement for costs of our army of occupation after the armistice, which took over a sector around Coblenz at the request of the Allies.

"along broad lines" to President Wilson and Secretaries of the Treasury Glass, Houston and Mellon from 1919 until 1922. Since then many semi-official innuendoes, culminating in the recent Churchill note, having the same purpose and originating from identical sources, were made and received universal publicity. They suggested that, if we canceled the debts of our associates, Great Britain, France, Italy and the others would do likewise.

This "Balfour principle" had a sound of mutual benevolence until analyzed, when it appeared that the rôle assigned to the United States would be more than magnanimous. Italy would cancel her small advances to her little Allies; France would forgive the larger loans to her little Allies and Italy; Great Britain would annul her larger advances to her little Allies, Italy and France —if the United States would cancel her much greater advances to Great Britain, France, Italy and all the others. These canceled amounts would then be subtracted from German reparations payable to our debtors. But there was no nation to reciprocate with us, for American citizens had supplied the money required by their government for its war necessities at home and requirements from all allied and neutral countries, as well as for allied requirements in the United States and a considerable portion of their requisites from neutrals.[7]

Had this "principle" been accepted, the belligerents, ourselves excepted, would have been relieved of the major portion of the inevitable pecuniary toll of war—their war; while the United States would have been burdened with the external obligations incurred by the Allies,[8] a considerable part of German reparations, together with its own vast war debts. The remaining payments due to

[7] The United States supplied dollars for one-half of Italian and over one-half French purchases in neutral countries.

[8] Great Britain would actually have gained $1,862,350,000 by the Balfour principle (present value of recoverable debts due to Great Britain from all its Allies of $1,930,000,000 subtracted from present value of the British refunded debt to the United States of $3,792,350,000). The United States would have lost $6,886,000,000, present value of the debt refunding agreement of thirteen nations to the United States.

them from Germany would, most probably, have been covered by a German bond issue sold chiefly to Americans by instalments, as was done with the German loan for reconstruction, and the proceeds turned over to our former Associates to liquidate their internal debts.

The Dawes plan would become "a scrap of paper" and be discarded. Europe would receive this immense tribute from the United States—more than she ever dreamed of exacting from the fabled Spanish Main, the golden Indies or the teeming Orient. Then should Germany default on reparation bonds, our associates would not be likely to interfere in our behalf. The only way this country could collect, if an economic boycott proved unsuccessful, would be to again declare war on Germany, although the World War was to end war.

Our government naturally returned this "generous appearing offer" to its originators. After rejection of this proposal, Great Britain refunded her American debt and endeavored to collect war advances made to her Allies. As a large volume of these claims were relatively valueless, Great Britian stated she would only collect enough from her Allies to bring her receipts from Germany equal to her payments to this country.[9] This policy created a most favorable attitude toward Great Britain by her Allies but engendered European enmity toward America. Citizens of our former associates have only been told as much about the debts as their politicians deemed wise, hence their recent aversion toward Americans has been caused by lack of information and not by inherent ill will.

Although our government would not consider the

[9] Mr. Balfour's statement that moneys borrowed by Great Britain from the United States were reloaned to her Allies has been proved to be fiction. It was only uttered for the purpose of misleading European nations and prejudicing them against the United States. Not one dollar loaned to Great Britain was utilized by her to support her Allies. This is amply proved by the accounting of the Treasury, whereby every item purchased by Great Britain in the United States during the war and transferred to another Ally was in turn credited to Great Britain's account and debited to the country benefited.

cancellation plan proposed by the British for obvious reasons, it would have examined and probably acted favorably upon one based on equality. On such a basis the costs of all goods and services supplied by the allied and associated nations would have been pooled, as they were intended for the mutual benefit of all nations concerned. The United States could forgive such debts owing to her in that category, but each of the Allies would have had to repay us more than they have agreed to do under the debt settlements.[10]

To explain the apparent differences in the statements of the two finance ministers it is necessary to give an account of the origin of the loans. As questions under dispute arise in the discussion, they will be dealt with in order.

In the spring of 1917 allied finances were in a more precarious position than those of the Germans. The latter, being the aggressors, firmly entrenched on foreign territory, seized everything of value behind their lines in Belgium, northern France, Poland, Rumania and Serbia. They "paid" the rightful owners for these "requisitions" with worthless paper currency.[11] The Central Powers relied more upon currency issues at home and in the occupied territories for revenue than upon taxation. Their intention was to take a regal path to victory, maintain content at home and in the occupied lands, annex the latter at the termination of hostilities and shoulder war debts on their opponents in the form of

[10] Great Britain would have to repay $2,500,000,000; our cash expenditures in the empire: plus $500,000,000 borrowed after the armistice: plus $353,000,000 borrowed to repay war debts contracted before we were a combatant: plus hundreds of millions for other than war purposes. France would have to repay $1,750,000,000; our cash expenditures in France; plus $1,000,000,000 borrowed after the armistice; plus $290,000,000 borrowed to repay war debts contracted before we were a combatant; plus hundreds of millions used for other than war purposes. Great Britain would owe us considerably more than the value of her funded debt, while France would owe us more than twice the value of the French debt agreement.

[11] In Belgium alone, this "money" forced upon the people amounted to $1,200,000,000, while in Poland it totaled over a quarter of a billion dollars.

indemnities. They were unable to import merchandise because of the British naval blockade except from adjacent countries. What was needed they produced at home or made substitutes for them or went without them altogether. The Allies, in control of the seas, imported immense quantities of goods from their colonies, from each other and from neutral countries. For goods from the neutrals they had to pay cash. During the first three years, allied reserves in neutral countries were drawn upon, loans were secured from neutrals and they began to sell some of their foreign investments and pawn their gold reserves. The international medium of exchange, the great pound sterling, though weakened by the strain, had been able till then to support the weaker allied currencies. At this critical moment from a financial and man-power viewpoint the United States entered the war.

The Allies immediately dispatched commissions to America—not to supervise mobilization of our men and resources from their experience of three years, but to procure loans from the Treasury. They wanted dollars to redeem their pawned investments and gold reserves; to repay borrowings from colonies and neutrals; to pay for their vast purchases of grain, oil, timber, cotton, steel, munitions, meat, copper, tobacco and zinc from the United States.

Two weeks and a half after we declared war Congress passed the Liberty Loan Act, which was "for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments (the Allies)." Our Treasury was empowered to sell Liberty Bonds and invest up to ten billions so received in bonds of the allied governments at par! "The cash advanced and credits granted," stated Secretary Mellon, "represented money borrowed by the United States from its citizens. These sums must be repaid

them, with interest." [12] The Allies were not securing sufficient funds from taxation and by the sale of war bonds to meet expenses at home and abroad and they were disinclined to sell their foreign investments. Americans therefore supplied money at cost to the allied governments through our Treasury. The Allies gave I.O.U.'s for the amounts borrowed. These temporary bonds of indebtedness were just as binding as permanent bonds, and were to have the same rates of interest and maturity as our Liberty Bonds. This stipulation was to protect both parties—our associates, so they would be charged no more than it cost our Treasury to provide the money; our Treasury, so interest and principal payments from our associates would meet the same payments due to purchasers of Liberty Bonds allotted for allied use.

We lived up to the letter of the pact, but as our debtors claimed they were unable to meet interest payments when due, our Treasury, at their instance, advanced more dollars with which to pay till after the armistice. Reviewing conditions when we finally closed our vaults to additional advances, Secretary Mellon said:

> The Treasury held obligations of some twenty nations, in general, payable on demand with interest at 5 per cent per annum. The world was in a state of financial disorder. No nation could have paid its debt had we demanded it. Most could not even pay interest.

Five days after we entered the war, the French Premier cabled our government through our Ambassador at Paris: "The Premier [Ribot] personally expressed the hope to me that no resolution would be introduced or debated in Congress tending to make a gift to the government of France from the United States." On the following day a cable from Ambassador Jusserand to Ribot, appearing in *Le Matin* translates:

[12] We actually advanced $10,084,249,000.

I have just had an interview with the Secretary of the Treasury regarding our financial needs. The amount of $133,-000,000 a month drew no observation from him; the amount of $218,000,000, which would be reached by adding our expenses outside the United States, appeared high to him, but it is not impossible that we shall get it. The rate of interest will be the same that the government of the United States will be able to obtain . . . with a guarantee that if subsequent loans are made at a higher rate, the same interest will be paid to the holders of the first loan. This interest, by the terms of the law, shall be paid by all the allied countries concerned. As to the terms of repayment, I mentioned that of fifteen years. Mr. McAdoo said he had no objection to that.

Premier Ribot thought a longer period could be obtained, so five days later his Ambassador cabled: "I shall do my best in the matter of repayment in twenty-five years." Still the Premier was not satisfied and two days later cabled: "The Minister of Finance [Thierry] insists that the term of amortization shall now be thirty years."

"It is clear," stated Secretary Mellon, "that when the advances were made to our Allies, they knew they were loans, not gifts. From the time of the original advances to date no responsible authority in the United States government has suggested cancellation, and each of our debtor nations, except Russia, has recognized the debt created by the advances and has offered to pay." The above quoted official French correspondence would not lead any one to believe that subsidies and gifts were intended; but loans on which interest would be paid by the borrowers, loans to be repaid in thirty years. Allied governments were eager to receive unlimited credits at that time, not gifts.[13] Their currencies would now be saved from sinking to obscurity by the strength of the

[13] The allied governments did not want to entertain even the suggestion that the United States was their partner in the war. We had no secret treaties with any of them, but entered the war because of the insolent and ruthless "sink without trace" German policy, which threatened our sovereign rights. We were an associate not an ally. The reason for the Allies' action is obvious. They did not intend that any precedent should be established by which the United States might claim a part of the spoils to be taken from the Central Powers.

dollar. Dollars they could have at what they cost the American Treasury—and dollars they got for every need without limit.[14]

Each allied nation had financed its Allies' requirements within its own borders before we entered the conflict. In addition, Great Britain supplied such neutral currencies required by herself and her Allies for purchases in neutral countries when the latter were unable to do so themselves. This reciprocity of currencies was for the mutual benefit of all and contributed to their common victory, as it reduced the frenzy of buying and selling each other's currencies to a minimum. At the conclusion of hostilities, it was expected that each nation would balance accounts with its Allies.

But such mutually beneficial treatment was not accorded us, as explained by both Mr. Churchill and Mr. Mellon. Our Treasury advanced dollars, as required, for allied purchases in this country after we became a combatant—before then it was not our war. It also was obliged, contrary to the practice in use by the Allies of supplying currency requirements for each other, to sell dollars to the allied governments and so procure foreign currencies with which to purchase supplies and services in their countries and for the use of the American army abroad. The dollars so obtained were retained by the allied governments in this country and applied by them to their war purchases here."[15] The United States paid its way at home, in allied and neutral lands, supplied the Allies with credits for the bulk of their purchases in this country and a considerable portion of their

[14] The implication that the British, in effect, endorsed loans which we made to the other Allies is a fallacy. Each nation was granted credits by our Treasury, as required, without regard to the risk involved, at no discount, thereby rendering each nation's credit good in every country in which they were required to purchase necessities.

[15] The Treasury never suggested that it pay cash for American requirements in allied lands; it was obliged to do so. But being placed in that inequitable position, while allied nations were procuring their requirements from this country on credit, it was natural that the Treasury requested them to apply these dollars to purchases here and so reduce to some extent their gigantic borrowings from our government.

requirements from neutrals; the Allies procured their imports mainly on credit, with our Treasury supplying the collateral. It was a door swinging both ways for them, but for us it opened one way only—out. It is easy to realize why the allied and associated nations owed us colossal sums, while we owed no nation.

The day of reckoning finally dawned, as it always does. None of our debtors had presented plans for meeting their obligations except by the desperate method of cancellation. A "round robin" was dispatched to them requesting negotiations for payment, as their obligations were long overdue and our Treasury was paying service charges on their debts. No reply was received, and a second note, couched in stronger terms, was sent. At last they were aroused to a realization that they owed us vast sums, which had been loaned willingly, but not given. It was a rude awakening to many misinformed citizens of allied nations, who had been told Germany could pay all their war costs or that we had given the money, but their governments had known the true status from the beginning. Putting off the inevitable had been the easiest way out till then, and they had adopted the path of least resistance.

Great Britain, the second largest war creditor nation, was the first to institute proceedings. "Amid widespread clamor for cancellation of the World War debts," said President Harding, "as a fancied but fallacious contribution toward peace—a clamor not limited to the lands of the debtor nations, but insistent among many of our own people—the British Commission came to make acknowledgment of the debt, to put fresh stamp of approval upon its validity and agree upon terms for repayment." The generous attitude adopted by the American Debt Commission during its numerous negotiations with debtor nations, approved by Presidents Harding and Coolidge, endorsed by the House and Senate Committees on Finance and passed by large majorities in the House

and Senate, is known by most Americans, and space does not permit repetition, but as few know for what uses were our loans employed an account may be enlightening.

Great Britain borrowed over $7,219,000,000[16] from our Treasury. Deduct $1,854,000,000 for purchases for other Allies. Deduct $760,000,000 repaid from her "own independent resources." Deduct $449,000,000 by dollar payments for British currencies. Deduct $81,000,000 by rupee credits in gold from India. Result: $4,075,000,000, principal amount refunded in 1923. Figured on a 4¼ per cent basis,[17] the British debt settlement represents a present cash value of 80 per cent of the amount due when refunded. Lord Curzon said we canceled $1,250-000,000.

Great Britain borrowed $2,544,000,000 for food-stuffs used by her military, civilians and Allies, but was credited for the latter amounts. Through her Food Ministry, Great Britain made a profit on the quantities sold to her own civilians. Great Britain borrowed $353,-000,000 to repay Wall Street bankers for British war loans, advanced before we entered the war. Securities placed as collateral for these loans were returned and she has benefited by a lower rate of interest than upon the original loans. Great Britain borrowed $215,000,000 for other supplies and services used by her military and civilians, but we were obliged to sell dollars and buy sterling in order to pay cash for our needed supplies from England, Scotland, Ireland, Canada, Australia, New Zealand, South Africa, India, Ceylon, Burma, the Malay States and elsewhere in the Empire. She borrowed $325,000,000 to repay Canada for wheat and $48,000,000 for transporting British goods on American railroads and ships, but we paid her $90,000,000 cash for carrying our soldiers and equipment overseas. Great Britain borrowed $99,000,000 for tobacco smoked by her military

[16] If this number of dollar bills were placed end to end in continuous line they would reach thirty-four times around the world.

[17] The rate it cost the Treasury to meet interest and principal payments to holders of Liberty Bonds when the debt was refunded.

and civilians; on the quantities sold to her civilians she realized a profit. She borrowed $1,536,000,000 for munitions; $1,330,000,000 for herself and the balance for her Allies, which amount was credited to her account.

Great Britain borrowed $261,000,000 in silver from our melted-down "cart wheels" to maintain the Indian rupee. She borrowed $1,682,000,000 for "exchange and cotton purchases." According to our Treasury statement, "the greater portion of this expenditure was for the maintenance of sterling exchange, not necessary for purchases in America, but which enabled England to make purchases in other countries at an undepreciated exchange rate." With over a billion dollars borrowed from us, Great Britain bought pounds at home, in neutral and allied countries. By this selling of dollars and purchase of sterling, she assisted in making the former a "glut" on the market, while through buying the latter she created a fictitious demand for sterling to such an extent that it was "pegged" at $4.75 7/16 during the rest of the war.[18] This shrewd manoeuvre increased the purchasing power of the pound between one-eighth and one-quarter throughout the world. To an equal degree it reduced the value of the dollar.

Our Treasury had to spend $500,000,000 in the foreign exchange market to buy sterling with which to pay for requirements from the British and was obliged to buy them at a loss in exchange estimated at $50,000,000. As Mr. Mellon explained in former statements, our Treasury supplied the billions spent for our requirements and those of the Allies from this country, billions for our requirements in allied lands and additional billions with which to purchase neutral currencies for our requirements and a large portion of allied requisites from neutrals. This terrible pressure from every country was too great for the overworked dollar; although it was actually the only sound currency among the belligerents

[18] When dollar support was withdrawn after the Armistice, the pound dropped to $3.19.

during the last year of the war, it dropped to a discount.[19] Our losses from this unwarranted depreciation are conservatively estimated at over $400,000,000 for American imports alone. Great Britain saved between $350,000,000 to $700,000,000 on her imports, on account of the high and fictitious exchange rate of the pound, maintained at that rate by a prodigal expenditure of dollars.

France borrowed $4,195,000,000.[20] Deduct $1,198,000,000 for requirements of our forces in France. Deduct $64,000,000 repaid from her own resources. Result: $2,933,000,000. Add $407,000,000 advanced by our Treasury to purchase $562,000,000 worth of American supplies after the armistice. Total: $3,340,000,000, principal amount owing without adding any interest for the past eight to ten years. "For obligations incurred by France to America after the war ended," Secretary Mellon states, "France owes us today $1,655,000,000. The present value of the entire French-American settlement, at the rate of interest carried in France's existing obligations, is $1,681,000,000. In effect, therefore, America has canceled the obligations of France for all advances during the war, and France in the Mellon-Bérenger agreement[21] has undertaken only to repay the advances and obligations subsequent to the armistice. No other creditor of France has accorded such generous treatment."[22] Figured on the 4¼ per cent basis, it rep-

[19] Dollars dropped to a discount of from 20 to 40 per cent in Sweden, Norway, Holland, Switzerland, Spain, India, Japan, Argentina, Chile, Peru, Bolivia and China.

[20] Enough to carpet nearly half of the District of Columbia with dollar bills.

[21] This agreement, ratified by our Lower House, has not been approved by either the French Chamber of Deputies or the Senate.

[22] According to the French-British and French-American agreements, France will pay Britain $404,600,000 during the first five years, and but $160,000,000 to the United States. The initial borrowings of France from Great Britain totaled about 400,000,000 pounds sterling. On the settlement, compound interest was added to the amount of 300,000,000 pounds sterling, increasing the original debt by 75 per cent. The United States loaned initial advances to France of $3,340,000,000. The amount funded included simple interest to the amount of $684,000,000, an increase of the original debt of but 20 per cent.

resents a present cash value of 47 per cent of the amount due when refunded.

France borrowed $850,000,000 for foodstuffs and made a profit by selling our grain, meat, sugar and other foodstuffs, obtained on credit, to her own civilians; $925,000,000 for munitions of all descriptions; $290,000-000 to repay Wall Street bankers for French loans contracted before we entered the war;[23] $108,000,000 for public works within her borders of permanent and revenue-producing character; $40,000,000 for additions, improvements and equipment for French railways; $12,-000,000 to subsidize French agriculture; $7,000,000 for private industries and commercial firms in France; $109,-000,000 for other American supplies and services; $122,-000,000 for ships added to her merchant marine and for transportation services. But we paid fares and freight rates for our soldiers and equipment carried on French railways, paid for their clothing, food, equipment and housing in France while these men were giving their energy, their time and, thousands, their lives to repel German invaders from French, not American, soil.

With $431,000,000 borrowed from our Treasury for exchange purposes, France bought francs in neutral countries, allied lands and at home, as the British bought sterling with our borrowed dollars, and created a spurious demand for francs to such a degree that they were "pegged" during the remainder of the war.[24] It is conservatively estimated that on our requirements in France alone the latter gained $250,000,000 by this fictitious exchange rate of the franc, maintained by a profuse expenditure of our dollars, while it cost us a corresponding additional amount. "We do not forget," remarked Minister of Finance Caillaux, while chairman of the French

[23] Securities placed as collateral for these loans were returned and our Treasury has been technically paying interest on these prewar loans for the French government.

[24] After support was withdrawn francs began to drop and are today worth 20 per cent of par value.

Debt Commission, "and no one in our country will ever forget what we owe America for her splendid work to end victoriously the war and for the generous help our people received from the citizens of the United States in time of need." From recent French editorials and speeches by her deputies and senators, it seems evident that this was not the voice of French officialdom, but only the ingratiating phrases of a suave diplomat.

The Italian debt, principal amount of over $1,647,-000,000, refunded in 1925, represents a present cash value of 25 per cent of the amount due when refunded.[25] "The entire Italian delegation," said Count Volpi, Minister of Finance and chairman of the Italian Debt Commission, "has been impressed with the fairness of the American Commission and their evident desire to do justice to Italy."

"Belgium has not forgotten," remarked Baron Cartier, Belgian Ambassador, "nor will she ever forget the decisive aid of the American army in the final triumph of the Allies, which for Belgium meant the restoration of her liberty and her independence. Invaded and occupied by the enemy, Belgium has always been grateful for the efficient and powerful work of the Commission for Relief in succoring her helpless civilian population. We also know that the restoration of our country would have been long delayed had it not been for advances freely granted us by the United States in the critical days which followed the armistice." The Belgian debt, principal amount of $377,000,000, refunded in 1925, represents a present cash value of 46½ per cent of the amount due when refunded.

[25] According to the Italian-British and Italian-American agreements, Italy will pay Great Britain $92,500,000 during the first five years, and but $25,000,000 to the United States. Great Britain originally advanced Italy 370,000,000 sterling and compound interest was added upon funding to the amount of 241,000,000 sterling, an increase of 65 per cent. The United States loaned Italy $1,647,000,000 principal amount; on funding simple interest was added to the amount of $394,000,000, or less than 24 per cent of the initial borrowings.

Poland, though not an Ally,[26] will repay 81 per cent of the amount due when refunded in 1924; Czechoslovakia, 75 per cent;[27] Yugoslavia, 31 per cent;[28] Rumania, 75 per cent;[29] Hungary, 81 per cent;[30] Estonia, Finland, Latvia, and Lithuania, 80 per cent. Austria has been granted a moratorium of twenty years to make possible an Austrian government external loan, of which Americans subscribed $25,000,000. This treatment accorded the remnant of the empire that initiated hostilities does not smack of venality.

Mr. Churchill challenges Mr. Mellon's statement that the thirteen agreements with our debtors need not entail heavy taxation on their citizens by supplying authentic figures purporting to prove his refutation. In Mr. Mellon's reply and original statement total receipts and expected reparations are given. Here is the crux of the discussion. Whether the British government wishes to differentiate between Bank of England advances and British government loans, or between cash advances and war supplies provided for her Allies are matters for it to arrange. It is also a personal question resting with the British government whether its dominions, protectorates and colonies receive a share of receipts from Germany and her Allies. Great Britain declared war and the other parts of the empire rendered her valiant assistance. The fact remains that Great Britain negotiated peace terms and settlements with her creditor and debtor nations. Mr. Mellon's figures are

[26] A Polish army, under General Haller, recruited mainly in the United States and Canada, fought with the Allies on the western front.

[27] Czechoslovakia did not exist as a separate entity before the armistice and was incorporated in the Austrian Empire. Thousands of Czechs and Slovaks fought under the flag of the dual monarchy, though many did so against their wishes.

[28] In this cancellation of over two-thirds due to us, it is well to recall that, though King Peter's Serbs were stanch members of the Allies, the Croats and Slovenes were citizens of the Austrian Empire and arrayed with Germany against us and our associates.

[29] Rumania more than doubled its area by spoils of war because it was an Ally.

[30] Victors do not usually help feed, clothe and minister to a defeated foe and then reduce their contracted obligations by one-fifth.

substantiated by official documents,[31] as are Mr. Churchill's, but the latter has not told the whole story. By separating interallied governmental debts from interallied commercial debts caused by the war and guaranteed by the respective allied governments, Great Britain may, in word, adhere to the Balfour principle and yet, in fact, collect by its government and nationals from its Allies and Germany more than it pays the United States annually.

Even excluding reparations and interallied payments to each other, Americans are paying the chief European war debts due to us through indirect channels. Secretary Hoover estimated that during 1925 Americans paid $271,000,000[32] more than a fair price for rubber imports from the British Empire. Their excess profit from this commodity alone was over two-thirds more than paid us on their war debts that year. American tourists spent approximately $250,000,000 in France last year. This is over eight times the amount France will pay us this year under the Bérenger agreement. It is estimated by French authorities that Americans will spend a greater amount this year. Italy received approximately $100,000,000 in remittances from Italian-Americans last year, and American tourists spent in the neighborhood of $75,000,000 in Italy. Thousands of Italians return permanently to their native land every year, taking their American savings with them, but without including this amount, Italy received in remittances and tourist expenditures from Americans more than thirty-five times the amount she paid us on her war obligations during the year.

[31] According to official figures contained in the Franco-British agreement for payment of French debts; the Italian-British agreement for payment of Italian debts; the Mellon-Baldwin-Norman settlement for payment of British debts; the Mellon-Bérenger agreement for payment of French debts; the Mellon-Volpi settlement for payment of Italian debts and reports of the Reparations Commission and Agent General for Reparation Payments as stipulated in the Dawes plan.

[32] Substantiated by British economists.

Lack of space alone compels the omission of numerous examples showing that the Allies have money for other purposes, though countless pleas are advanced that payment of their war debts to us, even according to the generous agreement schedules, will work untold hardships on their people. The French naval program of 1923, in this era of reduction of armaments, called for ninety new warships; the 7,000,000,000-franc appropriation for additional fortifications on the Franco-German and Franco-Italian frontiers; reduction of the discount rate by the Bank of France in two months' time from 7½ to 5½ per cent, are typical examples. France is spending nine times more to maintain her military régime than she is paying us on her war debts. Expensive wars of conquest in Morocco and Syria since the World War are other instances. Great Britain could apparently afford to conduct a billion-dollar coal and general strike last year, export hundreds of millions for investment in foreign countries and her dependencies and at the same time reduce the discount rate of the Bank of England, while greatly increasing that institution's reserves. Great Britain is spending more than four times the amount being paid on her American war debts to maintain her military. These facts do not sound like penury.

Whether Germany can continue payments is a question that the future must decide. "In the field of reparation payments," reported S. Parker Gilbert, Agent General for Reparations, "Germany has in the second year, as in the first, promptly and loyally discharged all her obligations." [33] "The German attitude toward this situation," stated Dr. Bernhard Dernburg, former Minister of Finance, when referring to Germany's ability to meet increased annual payments, "is to try loyally to live up to the Dawes plan and trust in the good faith

[33] During the period of the Dawes payments, Germany has paid $492,500,000.

and common sense of its administrators." Henry M. Robinson, of the Dawes Commission, after a thorough investigation this year, stated that the German people are well able to pay reparations in full, for "the reparation burden is probably less—certainly no greater—than Germany sustained in maintaining her war establishment before 1914." Germany's annual income is about $14,000,000,000, or more than twenty times the greatest annual reparation payments. Reparations at the maximum will place a tax on the national income of but 5 per cent. Our associates will receive annually from sixty-two million Germans more than twice the amount their two hundred million citizens, excluding vast and populous colonies, will pay America.

A recapitulation of the agreements made shows that the aggregate indebtedness of our associates, due to our Treasury at the time the thirteen agreements were made, was $12,036,376,000. The funding agreements have a present cash value, figured on the 4¼ per cent basis of only $6,862,285,000, or 57 per cent of the amounts due to us when funded. Thus our Debt Commission has forgiven these European nations $5,174,091,000, or 43 per cent of the sum total actually owing to our Treasury and American taxpayers. The finger of history can point to no such parallel of generous treatment to debtor nations by a creditor nation. Unmasked, the American Shylock is revealed as Europe's benefactor.

MAKING WAR LOANS TO THE ALLIES[85]

The debts of other governments to the United States have been the subject of much discussion since the end of the World War. The effect which their payment would have upon us and upon the countries in-

[85] By Albert Rathbone, financial adviser to the American Peace Commission and unofficial observer of the United States on the Reparations Commission, 1919-20. *Foreign Affairs.* 3: 371-98. April, 1925.

debted to us has been the subject of articles written by economists here and in Europe. Suggestions have been made both at home and abroad that these debts should be canceled or readjusted. Some progress has been made toward their refunding, that is, the conversion of the promissory notes of the respective foreign governments which we held, which by their terms were payable on demand, into long term obligations with fixed dates of maturity. In some quarters it has been suggested that reparation payments by Germany are in some way inextricably bound up with our loans to foreign governments. In other quarters such a suggestion has been strenuously opposed. The obligations of a government, indebted to two or more other governments, and the rights of the creditor governments as between themselves, both legal and moral, have been the subject of speeches widely circulated in the press. It is not intended in this article to discuss these controversial questions, but to attempt to clarify the issues by making a brief statement of some of the basic facts relating to our government loans and the principal considerations which governed the United States Treasury in making the loans to the allied governments under the authority of the Liberty Loan Acts.

Under the provisions of the Liberty Loan Acts the Secretary of the Treasury was authorized to make loans to the allied governments only out of credits established in their favor with the approval of the President before the declaration of peace. From time to time, therefore, when the government concerned had requested the establishment of a credit in its favor, the Secretary of the Treasury would obtain the approval of the President to the establishment of such a credit, and thereupon the Treasury would notify the government concerned that a credit had been established in its favor in a designated amount and that from this credit the Treasury would make loans if, and to the extent which, it should

determine and for purposes which it should approve. The establishment of each such credit constituted the President's approval of loans by the Treasury up to the amount of such credit; ordinarily it had no other effect. It did not constitute a liability of the United States nor an engagement on the part of the Treasury to make loans or to pay out dollars. It was subject to withdrawal at pleasure by the Treasury, and in the cases of credits established in favor of Cuba and of Russia the unused portions of such credits were in fact withdrawn after our Treasury had determined that loans to those governments were not required to the full amount of the credits established in their favor. There were other cases too where established credits were in part withdrawn. In a very few special cases what were called effective credits were established in favor of allied governments, that is, credits which the governments concerned were assured would be devoted by the Treasury to making loans to them in the future. This was done in cases where dollars were not immediately required and if, in lieu of furnishing the dollars at once, the undertaking of the United States to furnish the dollars at a future time met the need of the allied government. Obviously it was to our interest not to furnish dollars more quickly than needed, and to the interest of the borrower not to have interest run from an earlier date than necessary.

When we commenced establishing credits and making loans the foreign governments desired that credits should be established in their favor sufficient in amount to cover all their dollar commitments and all their dollar needs that they could forsee in the near future. On the other hand, our Treasury felt that in view of our own large dollar requirements for war purposes and the limit placed on war expenditure in this country by the country's productive capacity, the total amount of credits established in favor of allied governments should not

average more than about $500,000,000 each month. The dollar needs of the allied governments as so estimated by them considerably exceeded $500,000,000 a month, so that there naturally ensued a competition between the allied governments regarding the extent to which each should participate in the credits we were prepared to establish. Each allied government was reluctant to reduce its estimate of its need for dollar credits so as to bring the aggregate of all such requests within the limit of $500,000,000 monthly, fixed by our Treasury. The Treasury was not equipped to determine with certainty whether the effective prosecution of the war required the establishment of a credit in favor of Great Britain for one purpose rather than a credit in favor of France for another or in favor of Italy for a third. In relief of these perplexities, it soon became apparent that the estimated dollar requirements of the allied governments were one thing, and the supply of commodities obtainable upon our markets in a given time was quite another, and that in consequence, while our Treasury might have been staggered to supply dollars quickly to the aggregate amount indicated by the allied governments, it would be able to supply all the dollars required by the allied governments as fast as the commodities they purchased could be delivered to them by our producers. In view of these considerations, the Treasury adopted towards Great Britain, France, and Italy the general policy of establishing credits, the amounts of which bore no definite relation to the amount of their commitments nor to the amount of their requirements here, but which aggregated approximately the estimated amount of dollars which they would require for disbursement during a period of thirty or forty days. As a consequence of this method of procedure, competition between the allied governments for our credits ceased and we were able in due course to establish for all of them the credits which were needed, in addition to their own available dollar resources,

to meet their dollar requirements for war purposes. In the case of certain of the smaller countries it was found necessary to continue to establish credits up to the amount of their commitments in the United States, as without such credits in their favor they found it difficult to place to advantage orders upon our markets.

After putting into effect the practice of establishing credits to cover estimated cash disbursements for a period of thirty or forty days, the Treasury fixed Tuesdays and Thursdays of each week as the days when it would ordinarily make loans from these established credits. In a case of urgent necessity the Treasury would make loans on other days, but it was found to be less disturbing to our banking institutions if the bulk of our loans were made on days fixed in advance. In general the dollars we loaned were made available by the Treasury instructing the New York Federal Reserve Bank (in accordance with the previously received request of the borrowing government) to hold subject to the order of that government a stated amount in dollars, and so notifying the borrowing government. Ordinarily on the same day the borrowing government withdrew from the Federal Reserve Bank the funds placed to its credit and deposited the same with its own depositary in the United States. Loans were not made on every Tuesday and on every Thursday to every allied government availing of our loans, but while the war was going on and for some time thereafter, while deliveries were constantly being made to the allied governments under existing incompleted contracts requiring the payment to our producers of a large amount of dollars, there were not many Tuesdays or Thursdays on which some loans were not made by our Treasury. The general purposes for which loans would be made to the allied governments having been approved, the amount of loans to be made by our Treasury on any given day was determined by a consideration of the amount of the

bank balances of the allied governments and the estimated dollar demands upon them for the next few days. In connection with the sale of Liberty Bonds, the Treasury had carefully built up a system under which its balances were *pro rated* among various banking institutions throughout the land in proportion to their subscriptions to Liberty Bonds and Treasury Certificates. As the money which the allied governments borrowed belonged to them, and in consequence they could deposit it where they pleased, care had to be taken that the equilibrium established by this system should not be disrupted by unnecessarily large cash balances being built up by the allied governments with their own depositaries. The governments borrowing on Tuesdays would advise the Treasury regarding their approximate cash balances at the close of business on the preceding Monday, any other dollar resources expected to become immediately available to them, and their estimated dollar disbursements on that day and the next; in the light of that information the Treasury determined the amount of dollars it would loan that Tuesday. Similarly the Treasury on Thursdays would be advised of the approximate amount of bank balances at the close of business the preceding day and of the estimated dollar receipts and payments that day and on the succeeding Friday, Saturday, and Monday.

At the same time that we made them our loans, the borrowing governments, through their representatives duly authorized for the purpose, executed promissory notes for the dollars borrowed, payable upon demand, except in the case of a few of the earlier notes which were expressed to be payable on a specified early date and which after their maturity were carried as past due or demand obligations. By their terms, these notes, or certificates of indebtedness as they were often called, bore interest at a specified rate, were payable in gold coin of the United States, and contained an agreement on the

part of the borrowing government to convert the notes upon the request of the Secretary of the Treasury of the United States into an equal par amount of convertible gold bonds of the borrowing government, conforming to the provisions of the acts of Congress specified in each note under the authority of which the loan was made. These notes were in all respects as valid and binding as would have been long term obligations payable on fixed dates.

Under the terms of the acts of Congress our loans could be made to the allied governments only for the purpose of more effectually providing for the national security and defense and prosecuting the war. But to prosecute the war against Germany effectively the allied governments were obliged to purchase on our markets not only munitions and supplies for their armies but also foodstuffs and commodities required for the sustenance of their civilian populations. In consequence, their war purchases in the United States for which we made our loans consisted of supplies required both by the military forces and the civilian populations of the allied countries.

The financial requirements of each of the allied and associated governments fell into three classes—according as they arose at home, in allied or associated countries, or in neutral countries. In general, the view of the United States Treasury was that the first class could and should be met by the government concerned through taxation or domestic loans; that as regards the second class, each country (if necessary) should stand ready to provide or arrange finance for the requirements of its Allies for expenditures within its borders; and that expenditures in neutral countries should, for reasons of finance, be reduced to a minimum and should be met under some equitable arrangement by those countries able to provide the necessary finance in the required currency.

From the time it received the necessary authority from Congress, the United States Treasury was pre-

pared to make to the allied governments whatever loans were required to enable them to make in the United States their necessary war purchases in so far as an allied government was unable itself to effect such purchases from other dollar resources at its disposal here. If the Allies were successfully to carry on the war, it was absolutely essential that they should make heavy purchases of our commodities. In view of our own stupendous financial program it would have been unwise to permit new issues of bonds of foreign governments to compete in our market with our own Liberty Bonds; and in any event no considerable amount could have been raised by the allied governments in that manner. It was clear that through taxation and loans we could gather in dollars, and that the dollars we loaned to the Allies and which were expended by them here remained subject to our taxes or available for the purchase of our Liberty Bonds. These same considerations, however, were applicable to the requirements of all the allied governments so far as they could be supplied in any allied country. Thus there was linked with the proposition that we would find and loan to the Allies the dollars they required for war expenditures in our country, the corollary that each allied country could and should, to the extent necessary, find and loan its currency to other allied governments for their war purchases within its territory. That is, for war purchases within the British Empire, Great Britain should supply and loan the necessary pounds to France, Italy and Belgium, and France should similarly supply and loan the francs needed for war expenditures of the allied governments in France.

For its own war purposes in Great Britain, France and Italy, the United States did not borrow pounds or francs or lire. Our Treasury was obliged to procure these currencies for the use of our army abroad. We bought pounds, francs and lire from the governments of Great Britain, France and Italy, and made payment

therefor in dollars here. The dollars thus obtained by Great Britain, France and Italy were applied by them towards the cost of their war purchases here, and thus the amount of the dollar loans required by these countries from our Treasury was diminished in a corresponding sum. Similarly Great Britain, loaning to France and Italy much larger values than the British requirements for francs and lire, paid for the francs and lire required for British use by crediting to France and Italy the sterling equivalent of the francs and lire turned over to her. By this means, or by some similar transaction, Great Britain met her needs for those currencies. Some other of the allied governments, however, required francs which were loaned them by France and substantially all of the allied governments actively engaged in the war in Europe required sterling and obtained advances thereof from Great Britain.

The United States financed its own requirements in neutral countries. To some extent our loans to support sterling exchange (which are referred to hereafter) provided the means necessary to pay for British purchases in neutral countries, and, to the extent they did not suffice, Great Britain obtained for herself the neutral currencies she required. Direct aid was required, however, chiefly by France and Italy, to finance much of their necessary war purchases in neutral countries. It was evident that the United States or Great Britain or both would have to find much of the finance required by France and Italy in neutral countries. There was no particular principle under which all such finance should be furnished by one of those countries and none by the other; both the United States and Great Britain were financially able to assume and to carry the burden. Great Britain before we entered the war had supplied such neutral finance as France and Italy required and had not been able themselves to supply. Until we declared war on Germany the war had been the Allies' war, not ours,

and our Treasury therefore could not accept the theory that, because before we entered the war Great Britain alone had furnished the assistance required by France and Italy for finance in neutral countries, it was our duty alone to furnish such assistance after we entered the war.

Various considerations had to be taken into account in determining how and to what extent the United States should aid in financing, in neutral countries, necessary requirements of France and Italy, arising from the time we entered the war. Great Britain as the great creditor nation had available facilities for obtaining neutral finance which we, at that time a debtor nation, did not have. The apparent large balance of trade in favor of the United States, after there had been eliminated therefrom the United States exports paid for by the dollars which we had loaned the allied governments, became a heavy adverse balance against the United States, and this seriously handicapped the ability of the United States to furnish financial aid to allied governments in neutral countries. Through its pre-war commercial interests and its well established war organizations, Great Britain was actually in a better position than we were in, or could put ourselves in, to handle the obtaining and utilizing of such neutral finance. Great Britain had capital interests in many neutral countries and for years the ocean transportation of exports and imports of neutral countries had been largely carried on by British ships. Between April, 1917, and November, 1918, as compared with the currencies of Sweden, Norway, Denmark, Holland, Switzerland, Spain, India, Japan, the Argentine, Chile, Peru, and Bolivia, the dollar was at a discount, and generally at a very heavy discount, and the pound was at an even heavier discount than the dollar. Consequently, purchases in these countries, if paid for in dollars or in pounds at their current exchange value,

meant costs largely in excess of the high war prices as measured in terms of the currencies of these countries. If we alone were to finance these neutral requirements, it was as a practical matter impossible for us to delegate to Great Britain the control of the expenditure of our dollar loans for the neutral requirements of France and Italy for which they were unable themselves to provide. For the reasons elsewhere referred to, from the financial standpoint it was to our interest, and to the interest of Great Britain as well, that purchases which France and Italy could make in the United States or in Great Britain should be made there rather than in neutral countries. After we entered the war, in view of the considerations mentioned, Great Britain continued to furnish in the first instance most of the neutral finance required by France and Italy, but the United States Treasury, being prepared to bear its fair portion of the burden of securing finance for France and Italy in neutral countries, effected arrangements by which, after we entered the war, such purchases were ultimately in part financed by our dollar loans to France and Italy. The cost of the neutral finance so found after we entered the war was ultimately furnished, in the case of Italy, approximately one-half by the United States and one-half by Great Britain, and—in the case of France—something over one-half by the United States and the balance by Great Britain.

Having thus fixed its general policy as to which countries should be the lenders, the United States Treasury formulated its general policy as to the allied governments which should be the borrowers. This was, that our loans should be made to each allied government to meet the cost of commodities purchased here for its own use; that we would not loan to one government the dollars needed for purchases to be made by or on behalf of another government, and that neither the financial condition of the borrower nor questions of political

expediency in our own country should be factors in determining the government to which our dollars should be loaned and whose obligation we would consequently take. In view of the discussions since the war regarding our loans, it is interesting to recall that sympathy here at the time we were making our loans was strongly with France and that it was believed that loans to France would be more popular in our country politically than loans to Great Britain. However, as stated, no such consideration was permitted to influence our Treasury in the making of its loans.

A difficulty arose in applying the principle that we should loan to each allied government the dollars required for war purchases here for its own use. Before we entered the war various purchasing organizations had been built up and were functioning. It was deemed unwise to disturb or disrupt them. Many purchases were effected by a single organization set up by one of the allied governments which pooled the necessary purchases for the use of the three principal allied governments. To have insisted that each government make its own purchases separately would have caused them to compete with each other and would have further raised prices in the United States, with the resultant increase in the amount of our loans. To meet this situation, what was known as the dollar reimbursement plan was devised. Under this plan, if one allied government borrowed dollars to pay for purchases made by it in whole or in part for the use of another allied government, we loaned the government for whose benefit the purchases were made a sufficient amount of dollars to permit it to reimburse the government originally making the purchases. This was done on a settlement of the account, and sometimes indeed before its final settlement, and the government to which reimbursement was made either applied the dollars thus received toward the repayment of our loans to it or else held them to meet its dollar expenditures for

purposes for which dollars would otherwise have been loaned to it by the United States. For example, if a British agency purchased in the United States a commodity, say copper, part of which was to be used by Great Britain, part by France and part by Italy, the British government in the first instance borrowed of our Treasury sufficient dollars to make payment for all the copper so purchased. Later, when a specified amount of the copper so purchased was turned over to France and a specified amount to Italy, the British government made claims against the French and Italian treasuries for reimbursement in dollars for the cost to the British agency of the copper turned over to those countries, the price charged them being determined by the price of all copper so purchased, including expenses incident to the purchases, cost of transportation to seaboard, interest, etc. When these accounts of copper purchases were settled between these three governments, and sometimes pending final settlement, the French and Italian governments would ask loans of the United States Treasury for the purpose of repaying in dollars to the British government the amount of dollars which the British government had thus expended for them in buying the copper turned over to France and to Italy, and dollar loans in the required amount having been made to France and to Italy, they would then pay the dollars to Great Britain in settlement of the cost of copper delivered to them by the British agency. The next step would probably have been to require the British government to repay the dollars thus received to the United States Treasury on account of our loans to Great Britain and to have canceled a corresponding amount of British obligations, had it not been that the cost of the copper bought for France and Italy then would have figured twice in calculating the aggregate amount of our loans to the allied governments; once when purchased from the American producer by the British agency for France and Italy, and once when

purchased at cost by France and Italy from the British agency. Ordinarily, therefore, instead of requiring the dollars so received by Great Britain from France and Italy in reimbursement of the cost of its copper purchases for those countries to be applied on the British obligations which we held, our Treasury would require Great Britain to expend the dollars so received by it from France and Italy for other of its dollar purchases, in all respects as if the dollars so received had been loaned by the United States to the British government. In its essence the dollar reimbursement plan was merely bookkeeping which, when applied, resulted in our loans being made to the appropriate country for whose use they were expended in accordance with the policy of the Treasury as stated. Its practical effect was to substitute for British obligations in our portfolio the obligations of other allied governments to the extent that purchases were made from our dollar loans to Great Britain for the use of other allied governments.

The difficulties which naturally occured in giving effect to the principles which our Treasury adopted and the modifications which became necessary in the methods which we used in making our loans inevitably caused some extention of these principles. As already stated, we were prepared to loan the dollars needed to buy available commodities produced here so far as required by the allied governments for war purposes. It had, however, been the business custom for years, and such custom could not be changed in a day, to pay for various of such commodities, notably cotton, by means of the foreign exchanges.

For example, British manufacturers had for years been large buyers of raw cotton in the United States. The British manufacturer in payment for the cotton he purchased would authorize the American seller to draw on him for pounds sterling in a specified amount. The American seller would accordingly make his draft pay-

able in sterling, and as he did not want pounds sterling in England but dollars in the United States, he would sell such draft on the New York exchange market for dollars. In ordinary peace times there was a commercial demand in New York for pounds, and these sterling drafts could readily be sold at or about the par of exchange, *i.e.*, for an amount of dollars the gold content of which would equal the gold content of pounds to the amount specified in such draft. In peace times, fluctuations in exchange where the supply of pounds offered on the New York exchange market exceeded the demand, and *vice versa,* were checked by England exporting gold to us, or if the demand for pounds exceeded the supply of sterling drafts offered, by our exporting gold to England. War-time conditions fundamentally changed this situation. Great Britain in effect prohibited the export of gold and we permitted gold to be exported only under special licenses which were issued only in exceptional cases. Great Britain's exports were curtailed and her commercial carrying trade was disrupted. As we bought much less of British commodities and services during the war than in peace times, we required much less sterling than in peace times to pay for such British commodities and services as we bought during the war. On the other hand, the British need of dollars had largely increased over her peace-time requirements. Necessarily the effect of these conditions was to increase the British demand for dollars and to lessen the demand for pounds on our exchange market. Therefore, if cotton and other commodities purchased of us, which in peace times were ordinarily paid by sterling drafts, were still to be paid in that manner, it would not be possible to sell these sterling drafts for dollars at or near the par of exchange; and instead of drafts payable in pounds sterling commanding in our market something near the par of exchange in dollars ($4.86+) they could be sold only at a great sacrifice, how great it was impossible to

foresee. Certainly on our exchange market the value of the pound as compared with the dollar would have tremendously declined and the credit of Great Britain would have been seriously affected at a time when it was of the utmost concern to all the governments at war with Germany that the financial credit of the allied governments should be maintained. It was recognized that the sterling drafts offered for sale on the New York exchange market were not only drafts issued in payment of purchases in the United States, but also drafts used in payment of purchases in other parts of the world, both within and without the British Empire; and that such purchases were not only governmental purchases but also private purchases, not only purchases by residents of Great Britain but also by residents of other countries. Hence our making loans for the purpose of supporting British exchange necessarily would involve an extension of the principles formulated by our Treasury to govern it in making our loans. However, it was believed that, because of the control exercised by the allied governments over exports and imports and over shipping, the great bulk of the purchases for which payments would be made over our exchange market would be for war materials and other commodities necessary for maintaining the civilian populations of the allied countries, and that through such control and cooperation between the governments the amount of drafts coming on the exchange market, representing purchases in neutral countries, could be kept within reasonable limits.

It was decided, therefore, that British exchange should be pegged and that the Treasury would make the necessary dollar loans for the purpose. British exchange was pegged by supplying sufficient dollars through our loans to Great Britain to enable its representatives to purchase on the New York market, at a price agreed upon in advance, all sterling drafts offered for sale which were not purchased at or above that price. Thus there

was created an unlimited demand for such drafts at a fixed price. The total amount expended by Great Britain in support of exchange and for cotton purchases was approximately $1,682,000,000, of which about $1,275,-000,000 was during the period from April 6 to December 31, 1917, when our governmental agencies for the control of purchases were being established. It is impossible to analyze this large amount of expenditures but a study of our trade returns for 1917 suggests that, during that year, the amount of our advances to the Allies not represented by purchases and other expenditures in the United States was only a very small proportion of the total. By the first of January, 1918, most of the important purchases, other than cotton, had been taken off the exchange market and were being paid for direct in dollars and the advances to Great Britain for the purchase of exchange and for cotton for the period from January 1 to November 30, 1918, fell to about $296,000,000. During the same period our exports of cotton to Great Britain, as shown by the trade returns, amounted to about $290,000,000. The United States also made loans to support French exchange, though the method employed was somewhat different and the amount involved much less than in the support of sterling exchange. British exchange was pegged at a fixed point ($4.76 7/16 per pound for cable transfers) for the entire period. French exchange was pegged at a point, generally in the neighborhood of 5.70 francs to the dollar, agreed upon practically each month. Italian exchange lacking our support had depreciated to about 9.15 lire to the dollar, but after support was arranged through our standing ready to make loans to purchase drafts payable in lire, Italian exchange was brought to about 6.35 lire to the dollar.

As many French purchases were paid for by sterling drafts which were offered for sale in our markets, the dollar reimbursement plan was utilized to reimburse

Great Britain for her borrowings of dollars to support sterling exchange to the estimated extent that French purchases were paid for in such sterling drafts. The cost of sterling drafts representing French purchases, paid for from our loans to Great Britain to support sterling exchange, was approximately $50,700,000, and accordingly we ultimately were given French obligations in lieu of British obligations to that amount.

The Treasury as rapidly as practicable arranged that payment for American commodities purchased by the Allies should be made direct in dollars, and eventually by far the greater part of the commodities (including cotton) which at the time we entered the war were being paid for by drafts payable in foreign currencies, were paid for direct in dollars by the allied governments out of our loans to them.

Next the shipping situation presented difficulties in the way of carrying out the Treasury's theory as to the particular government to which a loan should be made. These difficulties were most acute in connection with the supply of cereals. Apart from the United States, the principal sources for the supply of cereals were within the British Empire (Canada, Australia, India, etc.) or in neutral countries, especially the Argentine, in which Great Britain was in a position to secure finance. Considerations, both of time and of risk in shipping, made it expedient that Italy and France should be supplied largely from British Empire sources and that Great Britain should be supplied from America, rather than that all British Empire supplies should move to Great Britain and a corresponding amount of American supplies should move to France and Italy. It was recognized, however, that such an arrangement made for the common good should not have the effect of increasing Great Britain's borrowings in America on the one hand, and its loans to France and Italy on the other. The difficulty was worked out by means of a theoretical cereal allocation.

That theory assumed that each country would receive, and so far as necessary apply to its own needs, the cereals available within its own territorial boundaries, and that it would purchase cereals here and borrow dollars for the payment thereof only to the extent that each country required for its consumption cereals in addition to the supply available within its own territories. Actually, in order to economize in the use of ships, the cereals were taken from the sources most available in view of the shipping situation and the German submarine menace.

Under the cereal allocation theory, the British Empire's supply of cereals was to be allocated in the first instance solely to Great Britain, and the cereal supply purchased in neutral countries was to be allocated to the country finding the finance, which was to be procured in such manner that sterling and franc drafts issued in payment therefor would not come upon the New York market as exchange and would not therefore be purchased with dollars from our loans to support exchange. The exportable supply of the United States was to be allocated in proportion to the requirements of the various allied countries in excess of those covered in the manner previously indicated; and our Treasury was prepared to make advances to the allied governments, in accordance with such allocation, up to the f.o.b. cost of the United States supply purchased and allocated to them.

The cereal allocation theory dealt with further allocations of minor importance and also with the allocation of any excess of the British supply over British requirements. In point of fact, however, the British supply fell somewhat short of British requirements, and consequently a small part of the American supply was allocated to Great Britain. The practical effect, therefore, of the cereal allocation theory was that we received British obligations for the cost of cereals to the extent only that the British supply (obtained from the British

Empire and neutral sources) was inadequate to meet the needs of Great Britain, although something over one-half of the cereal import requirements of the United Kingdom were actually met from the United States supply; and that we took the obligations of other allied governments for the cereals furnished them, although their requirements were actually met, at least to a considerable extent, by shipment from the British Empire source of supply. Before the cereal allocation theory was entirely worked out and accepted by the American and British Treasuries, and to meet a pressing emergency, at the urgent request of Great Britain we loaned her in the neighborhood of $200,000,000 to purchase wheat in Canada. The inability of Canada to finance its export of cereals was due largely if not entirely to purchases being made by Canada in the United States of the same character as those for which our Treasury was prepared to make loans to the allied governments, so that in making this Canadian cereal loan to Great Britain the departure from our principle of not ordinarily making loans to an allied government to finance purchases within its own territory was more apparent than real.

Much discussion took place regarding the extension of the principles of the cereal theoretical allocation to other supplies. In general, our Treasury expressed willingness to apply the principle to all cases where Great Britain was buying in the United States and furnishing to other allied governments similar supplies in substantially the same condition or stage of manufacture, whether Great Britain had obtained such supplies from the United States or from other sources, and on this basis British claims for reimbursement by France for pigiron and steel billets were accepted by the United States. Our Treasury, however, refused generally to extend the principle to raw materials of American origin used in producing manufactured articles for the Allies in Great Britain. Obviously many new considerations would have arisen in connection with any such extension, one of the

most important being the difficulty of applying it with any degree of accuracy or completeness, particularly as such application to be logical would have to be bilateral, so that against any adjustment for, say, American pig-iron entering into shells supplied by Great Britain from its loans to other allied governments there would have had to be an adjustment for, say, Indian jute contained in American sacks purchased with the dollars we loaned to the Allies. It is probable that on balance the amount involved in any such extension of the principle would have been relatively unimportant. Nevertheless, in certain specific cases where, to meet a military emergency, the Interallied Munitions Council required deliveries from one army to another of manufactured munitions containing American raw materials, the Treasury did consent that dollar reimbursement might be made for the cost of the American raw materials entering into the munitions so delivered.

The question of what items of British expenditures were made for account of other allied governments, and hence entitled to full reimbursement in dollars if made in the United States and part reimbursement if made in neutral countries, was a frequent subject of conference between the treasuries of the countries concerned. It was not easy of solution. Great Britain made purchases for France for which dollar reimbursement was claimed from France to an aggregate amount in excess of $1,000,000,000. For a considerable period France paid Great Britain on account of such purchases the sum of $10,000,000 a week, derived from loans to France by the United States Treasury. It was easy to determine that certain of the advances made to Great Britain were for the use of Great Britain and of no other country. Munitions, cotton, foodstuffs, tobacco and other commodities purchased by Great Britain out of our loans were transported to England and there consumed because Great Britain had not a sufficiency of these commodities and required them for consumption if the war was to continue.

So, too, interest on the advances we had made to Great Britain and the amounts required to meet the principal and interest of dollar obligations of the British government to private holders as they matured during the war period were loans for the benefit and use of the British alone. In other cases it was just as easy to determine that certain purchases were effected out of our advances to Great Britain for the benefit not of Great Britain but of other allied governments. Such advances were repaid in dollars to Great Britain by the respective allied governments out of our loans made to them for that purpose. It was not so easy to determine other questions—for example, the division between the United States and Great Britain of purchases made in neutral countries for the use of other allied countries, the proper settlement of the complicated figures dealing with the cereal allocation theory and the transportation of cereals, or the extent to which French purchases were paid for out of our loans to Great Britain to support sterling exchange. These and other debatable questions were argued *pro* and *con* and eventually an agreement was reached by the American and British Treasuries as a result of which dollar loans were made by the United States to the countries concerned and by them paid to Great Britain in full and final settlement, certainly as far as the United States Treasury was concerned, of the claim of Great Britain that it had used part of its dollar advances from the United States to effect purchases for the benefit of other allied governments. The dollars so received by Great Britain were either paid to the United States Treasury on account of British obligations which we held, or, as previously stated, used for dollar requirements of Great Britain in lieu of further loans to Great Britain from the United States. In either case the effect was to decrease the aggregate amount of British obligations which otherwise would have been held by us and correspondingly to increase the aggregate

amount of the obligations of the other allied governments to us.

It will be observed from the table hereinafter set forth that the total amount of dollars paid in reimbursement to Great Britain by the other allied governments from our loans to them aggregated about $1,850,000,000. Without making a detailed analysis of this figure it may be broadly stated that of this sum roughly $1,100,000,000 represented reimbursement on account of cereals, $500,000,000 reimbursement for other replacements of a similar character such as iron, steel, meat, etc., and $250,000,000 neutral purchases and other special items.

These were the general theories on which the bulk of our war loans were made; there were special cases which had to be specially treated, such as the loan of our melted silver dollars to Great Britain under the Pitman Act, for use in India, which loan has now been repaid in full; loans to France in lieu of compliance with a request for one billion gold francs which M. Clemenceau made of President Wilson at a time when the Germans were advancing towards Paris and when our franc requirements for the purposes of our army in France were large; and loans for Austrian relief to prevent the spread of anarchy and the continuation of war. Attention should be called, however, to one notable departure from the principles adopted by our Treasury in making loans for expenditure in the United States, namely, the loans we made to Great Britain to enable that government to make payment here in dollars of obligations which, before we entered the war, it had assumed in connection with American contracts entered into by the Russian government. Before we entered the war our manufacturers had quite generally refused to enter into contracts to supply commodities to Russia unless they received some assurance that Russia would make the payments she obligated herself to make under the terms of the proposed contracts. Great Britain supplied the credit required by our manufacturers on Russian orders

and in effect guaranteed the payments which Russia obligated herself to make under such contracts. After we entered the war, we from time to time loaned, to Great Britain and not to Russia, the dollars required to make the payments under these contracts as they became due, because the obligation was incurred by Great Britain before we entered the war. Thus Great Britain was called upon to pay and did pay out dollars we loaned to her (not to a very significant amount in comparison with the aggregate of our loans to Great Britain) in discharge of her old obligation of guaranty under these Russian contracts. To some extent Great Britain recouped these expenditures through the utilization or disposition of material delivered under such contracts, but on balance some small part of our dollar loans to Great Britain was for the purpose of meeting obligations in the United States entered into by Great Britain before we entered the war, but which were settled after we entered the war, and not for the direct benefit or use of Great Britain but for the use and benefit of Russia.

Some of our dollar loans had resultant effects which were of importance. Lending the dollars needed to support sterling exchange resulted in the purchase by the British government, from our loans, of drafts payable in sterling, and to the extent that such drafts were drawn in payment of purchases not made by the British government itself, that government collected the sterling called for by the drafts purchased. The sterling thus obtained was available for the governmental purposes of Great Britain and to a corresponding extent diminished the sums the British government was obliged to raise through loans or by taxation. When we loaned dollars with which the British government purchased commodities, notably foodstuffs, for the use of the civilian population, the pounds paid therefor to the British government on the sale of these commodities in Great Britain to the inhabitants of that country became available to the British government. The French government

obtained a supply of francs through our support of French exchange, and France, Italy and, to a lesser extent, other countries obtained supplies of their currencies through the sale to their civilian populations of commodities purchased through our dollar loans. Our support of British and French exchange necessarily had the effect of maintaining the purchasing power of the pound and the franc, with consequent savings to the governments of Great Britain and France. The purchasing power of the lira was increased when the arrangements we made effected its rise on our exchange market.

In the latter part of March, 1918, the Chancellor of the Exchequer for the British Treasury proposed a modification of the methods theretofore in use by the United States Treasury in making its loans to the allied governments. It was proposed that our Treasury should take over all the future obligations given to Great Britain by France and Italy, except obligations which they should enter into for the payment of interest on advances previously made to them by Great Britain, and that Great Britain should remain primarily responsible for arranging the finance of supplies to France and Italy outside of North America. For the supplies thus purchased for France and Italy it was proposed that France and Italy should make payment to Great Britain in dollars received by France and Italy from our loans, instead of making payment therefor to the British Treasury by their treasury bills, and that the dollars so received by Great Britain were to be used to meet in part the approved purchases of Great Britain in the United States. The British Treasury estimated at that time its monthly loans to France at about $75,000,000 and to Italy at about $43,000,000, exclusive of loans for interest due Great Britain upon her previous advances, and that the result of adopting the proposal would be that the United States would loan to France and Italy about $118,000,000 per month more than we were then loaning those countries, and to Great Britain monthly about

$118,000,000 less than we had been loaning her. This proposal was not accepted.

An excellent editorial entitled "The Balfour Note Once More," appearing in the British financial journal, *The Economist,* of March 10, 1923, states that the United States refused to accept this proposal largely on the ground that if it did so it would have no control over the expenditure of the money spent by agencies of the British government for France and Italy. It is true that this consideration was one reason for declining the proposal. It was, as a practical matter, impossible for the United States to loan dollars to France and Italy for purposes and in amounts which were to be determined, not by our Treasury, but by agreement between Great Britain on the one hand, and France and Italy on the other hand. It was, however, a part of the proposal that Great Britain should remain responsible for financing in the first instance the supplies to France and Italy outside of North America, and indeed it would have been most unwise to scrap the efficient purchasing organization built up during the war by Great Britain. But while this consideration was important the real reason for the rejection of the proposal was that it was in conflict with what our Treasury strongly believed should be the fundamental principle in making government loans, namely, that each government should find the finance required within its own territory by itself or by an allied government to the extent that such allied government was unable itself to provide the same. The reasons for the formulation of this principle have already been discussed. It was the least burdensome manner of finding the necessary war finance and our Treasury felt that any radical departure from that principle could not be logically defended and was fraught with financial and political danger. Through the cereal allocation theory and its extension to other commodities already referred to, the United States relieved Great Britain from the necessity of making loans to other allied

governments for their purchases from her of commodities of substantially the same character and in the same state of manufacture as Great Britain was buying concurrently in the United States. But the fact that the allied governments required and were purchasing coal and woolen goods from Great Britain seemed no reason for our accepting French or Italian obligations, whether given before or after we entered the war, in payment for British purchases here of raw cotton or copper for its own use.

The fundamental cause of Great Britain borrowing from us while loaning to the Allies was that there were commodities here which Great Britain required for her own use and was obliged to pay for in dollars which she borrowed of us, and there were commodities within the British Empire required by the Allies which had to be furnished them and for which they could not pay except from loans. The same condition existed, though to a smaller extent, in the case of France, which, while borrowing both of the United States and of Great Britain, nevertheless made loans to Belgium, to Italy, to Russia and to others of the Allies.

The position of the British government as both a borrower and lender unfortunately has led to some misapprehension regarding our own loans. In some quarters there has apparently existed the erroneous impression that while we made loans to other allied governments we did so only on British security, or the equally mistaken view that the dollars Great Britain borrowed of us enabled her to make loans to other allied governments.

The London *The Economist* has done yeoman's service in removing these misunderstandings. Thus in its editorial already mentioned it is said:

> In the circumstances described we sympathise with the complaint of the American Ambassador against the sentence in the Balfour Note in which it says, "Under the arrangement then arrived at the United States then insisted, in substance, if not

in form, that, though our Allies were to spend the money, it was only on our security that they were prepared to lend it." This sentence certainly suggests that the American government refused to accept the credit of our European Allies, and that in some way we were made to underwrite the loans they made from America for all purposes—an implication which is entirely incorrect. We regret, therefore, that Lord Balfour should have said on Thursday that "I am unable myself to find in those words anything which is either misleading or obscure."

Again in an editorial entitled "Inter-allied Debt," appearing in *The Economist* of January 10, 1925, it is stated:

Again the fact that we are paying the United States is not in itself an argument for bringing pressure upon France, for it is not in any sense true, as is commonly supposed, that we borrowed from the United States merely to relend to France and Italy. Our loans from America are quite independent of our loans to our European Allies. America lent to Italy, to France, and to Great Britain moneys required to enable them to make necessary purchases from the United States, and far the larger part of what we bought in America consisted of wheat, meat, metals, explosives, oil fuel, and other essentials, either of our national existence or of our war effort. But France had to borrow not only in America; the fact that the greater part of her pig-iron production was in German hands and that her mines were destroyed, meant that she had to buy iron and steel and coal in Great Britain, as well as woollen cloth, chemicals, and a great variety of manufactured products for which we advanced her sterling credits. It is an accident that the amount of these advances to France and Italy for purchases in Great Britain amounted during the latter part of the war to about the same amount as we had to borrow for British needs in the United States. But we cannot argue that if we had not been compelled to lend to our European Allies we need not have borrowed from America; the reason we had to borrow from the American government was that—large though our internal loans might be—we had no means of securing credit in dollars. It is true we might have raised further sums by continuing to sell conscripted American securities, but it was already becoming difficult to make further sales, and this method of raising money would have been increasingly costly. On the other hand, the United States government as soon as it came into the war, was determined to control the purchases of ourselves and our Allies. For all parties concerned, therefore, it was the cheapest and most convenient plan for us to borrow from the United States government. It is quite certain that even if France had not had to make any further purchases in Great Britain in 1917 and 1918, we should still have been under the necessity of bor-

rowing in dollars in the United States in order to feed Great Britain and to provide the material which America alone could supply.

It would appear, however, that during the latter part of the war Great Britain's loans to France and Italy were considerably less than her borrowings from us. Official British statistics show Great Britain's loans (probably including interest on loans made before March 31, 1917) from March 31, 1917, to March 31, 1919, to France at about £243,200,000 and to Italy at about £255,500,000 (an aggregate of something under £499,-000,000), and Great Britain's loan from the United States government outstanding March 31, 1919, at over £840,800,000.

That our loans to the allied governments attained the magnitude they did is due to the fact that we were not able to put an army at the battle front immediately upon our entering the war. When we first entered the war the allied governments were able to purchase large quantities of supplies here requiring large expenditures of dollars and huge loans to them. As our army took the field it began to absorb an increasingly large share of our products and thus the amount of our commodities available for purchase by the allied governments correspondingly decreased. So, too, when we first entered the war our governmental requirements for sterling, francs and lire were almost negligible, but as our military strength on the fighting line increased, our requirements for foreign moneys became correspondingly greater and the increasing amounts of dollars which we paid for such currencies furnished dollar resources to Great Britain, France and Italy which were utilized by those countries instead of borrowing from us equivalent amounts.

Our Treasury quite naturally felt that its duty did not cease with the actual making of our loans to the allied governments. It was of the utmost concern to the United States just how the dollars we loaned were expended, yet having purchased obligations of the allied

governments the dollars we paid for such obligations were theirs, not ours. It would have been undignified for them as sovereign states to have permitted even a friendly power to exercise control over their dollar balances. Had the Treasury insisted on controlling the expenditures of the dollars loaned, it could not have escaped responsibility for the use of the borrowed dollars. The Treasury was not equipped to act as a purchasing agency. The acquisition of commodities was imperative, time was most important, and reasonable certainty of prompt deliveries far outweighed ordinary price considerations. Our Treasury concluded that the control of the dollars loaned must be given exclusively to the borrowers; it was so given, and the purposes of the Treasury were served and the interests of the United States protected by other measures taken by our Treasury to which reference will now be made.

In making their written requests for dollar loans the allied governments were required to specify generally the uses which they proposed to make of the dollars asked for, and the written replies of the Secretary of the Treasury granting applications for loans likewise specified the general purposes for which the dollars loaned were to be expended. Thus the borrowing governments became obligated in respect of their use of the dollars we loaned them.

The allied governments, in compliance with the request of the Treasury and to enable the Treasury to consider further applications for loans in the light of full information as to the use made of dollars previously loaned, reported to the Treasury, in detail and on forms prepared by the Treasury, the use made of the dollars previously loaned them.

Under arrangements entered into in September, 1917, purchases were made by the appropriate agencies of the various foreign governments under the general supervision of a purchasing commission established by agreement between the Secretary of the Treasury and the

respective foreign governments for the purpose of coordinating governmental buying in the United States. The Interallied Council on War Purchases and Finance was organized through the efforts of our Treasury for the purpose of considering and coordinating the demands of the allied governments upon the United States Treasury. Later the War Industries Board was organized and passed upon the necessity of purchases on our markets by our government and by foreign governments as well, and the Treasury in general required the allied governments to obtain the consent of the War Industries Board to their purchases of commodities in the United States. Purchases of food in the United States by the allied governments were made only if the consent of our Food Administration was obtained, and purchases of fuel (coal and oil) only if the consent of our Fuel Administration was obtained. Arrangements were also made with our War Trade Board whereby the issue of export licenses to the allied governments was withheld except for commodities purchased with the approval of one or the other of the above mentioned agencies.

The organizations effected by our Treasury and our government proved to be of considerable value to the missions of the foreign governments making purchases in the United States in aiding them to make their purchases on the best possible terms. War prices were high in the United States, as elsewhere. That war prices in the United States did not go much higher than they actually did was due to the efforts of our Treasury and our governmental agencies to eliminate competition among governmental buyers, to coordinate purchases, and to check price inflation as far as practicable.

The annual report of Secretary of the Treasury Houston of 1920 contains an interesting analysis of the expenditures in the United States of the dollars which we loaned to the allied governments. From this analysis has been prepared the following table, in which fractions of $1,000,000 have been adjusted, dealing

with the advances, repayments, expenditures, etc., of Great Britain, France, Italy and other countries for the period April 6, 1917, to November 1, 1920.

	Great Britain	*France*	*Italy*	*All Others*	*Total*
Cash advanced	$4,277	$2,997	$1,631	$680	$9,585
Less refunds and repayments	80	31	....	8	119
Net	$4,197	$2,966	$1,631	$672	$9,466
Expenditures:					
Munitions and remounts	$1,331	$827	$259	$77	$2,494
Munitions for other governments	205	....	....	....	205
Exchange and cotton	1,683	807	87	68	2,645
Cereals	1,375	....	42	5	1,422
Other foods	1,169	295	142	24	1,630
Tobacco	99	41	....	5	145
Other supplies	215	277	63	58	613
Transportation	....	32	100	4	136
Shipping	49	122	1	1	173
Reimbursements	19	1,046	784	24	1,873
Interest	388	269	58	16	731
Maturities	353	290	....	5	648
Relief	16	143	16	363	538
Silver	262	6	....	....	268
Food for Northern Russia	7	....	....	....	7
Purchases from neutrals	....	....	19	....	19
Spec'l for U.S. war purchases in Italy	....	....	25	....	25
Miscellaneous	48	41	56	24	169
Total reported expenditures	$7,219	$4,196	$1,652	$674	$13,741
Less:					
Reimbursement from U.S. credits	$1,854	$19	....	....	$1,873
U.S. dollar payments for foreign currencies	450	1,026	$14	$1	1,491
Proceeds of rupee credits and gold from India	81	....	....	....	81
Total deductions	$2,385	$1,045	$14	$1	$3,445
Net expenditures	$4,834	$3,151	$1,638	$673	$10,296

It will be observed that this table shows expenditures reported to the Treasury exceeding by $830,000,000 the total amount of our loans within the period, and yet the expenditures for the full period had not been reported to the Treasury by many of the governments. It will doubtless be impossible ever to bring about an exact balance between the amount of our loans and the expenditures reported by the allied governments. As the Treasury would not in general make loans to an allied government so long as such government had available for use dollars however obtained, it is necessary in attempting to balance our dollar loans to the allied governments with their dollar expenditures to take into account the dollars which were or became available to the allied governments from sources other than our loans. When we entered the war a certain amount of dollars were available here to allied governments. After hostilities ceased there was some liquidation here by the allied governments of supplies they no longer required, which produced dollars. After the armistice the Treasury urged the allied governments to provide their dollar requirements through independent action on our financial markets. The British, French, Italian and Belgian governments all found means to obtain dollar funds here. Even during the war dollar funds were to some extent provided by some of the allied governments. The support of Italian exchange resulted, not in dollar loans to Italy for that purpose, but in dollar balances here in favor of the Italian Treasury derived from private purchases of lire on our market. Various departments of our government became indebted to allied governments for services rendered or materials purchased, for which payment was made in dollars. American securities owned or controlled by allied governments were disposed of in our market, thus increasing their dollar resources. All these factors must be determined and applied if a

balance is to be struck between the amount of the dollar resources of the allied governments, including the dollars we loaned them, and their dollar disbursements.

Our loans naturally divided themselves, on the basis of time, into two classes: those made before the armistice and those made thereafter. The following table, in which fractions of $1,000,000 have been adjusted, shows the amount of our loans both before and after the armistice, up to November 1, 1920 (all of our loans after the armistice except to a comparatively insignificant amount were made before November 15, 1919), after crediting repayments on account of principal prior to that date, all of which repayments were in the nature of bookkeeping entries except the payment of $500,000 on account of its obligations by the government of Cuba:

Period	*Great Britain*	*France*	*Italy*	*All Others*	*Total*
April 24, 1917 to Nov. 15, 1918	$3,696	$1,970	$1,051	$381	$7,098
Nov. 15, 1918 to Nov. 1, 1920	501	996	580	291	2,368
Total	$4,197	$2,966	$1,631	$672	$9,466

In general, we made our loans for the same purposes after the armistice as we did before. Our Treasury absolutely declined to make post-armistice loans for reconstruction or trade purposes. We did loan in the aggregate some $48,000,000 in substantially equal parts to Great Britain, France, and Italy to purchase foodstuffs and relief supplies which those countries furnished Austria. The loan made to Great Britain for this purpose has been repaid to us. Our Treasury had no authority to make loans to Austria, an enemy country, and it was important as a war purpose that relief should be furnished Austria to prevent the spread of anarchy which might have led to a resumption of hostilities, and

delayed the ending of war. For the same purposes we made loans direct to Czechoslovakia, Rumania and Serbia. For a time we continued after the armistice our loans to the Belgian government for use by the Commission for Relief in Belgium. Loans were also made in relatively small amounts to Czechoslovakia, to furnish part of the cost of returning soldiers to Europe. Prior to the armistice, in lieu of complying with M. Clemenceau's request for 1,000,000,000 francs in gold, to which reference has been made, we had established in favor of France an effective credit in the sum of $200,000,000. This credit the French government had transferred to the Bank of France, and the Bank of France had included the same as part of its reserves. The Bank of France drew dollars against this credit only after the armistice.

When it is recollected that at the time of the armistice we were loaning Great Britain only the dollars needed to meet her day-to-day expenditures, the aggregate of our net post-armistice loans to her of about $500,000,000 seems exceedingly moderate. At the time of the armistice Great Britain was obligated to make dollar payments against deliveries under existing contracts. In March, 1919, the British Treasury estimated its outstanding dollar commitments at about $273,000,000 in addition to about $88,000,000 interest on our loans to Great Britain which became payable and which was paid during April and May, 1919. It was not until some time after the actual signing of the armistice that the allied and associated governments became reasonably certain that hostilities had come to an end, and until so satisfied it was impracticable for them to begin demobilization or to cut down a considerable part of their dollar expenditures here. Our net post-armistice loans to Great Britain were kept down only because of her other dollar resources, including dollars paid to Great Britain by the

other allied governments under the dollar reimbursement plan.

The French and Italian post-armistice net borrowings included in the case of France the advances of the $200,000,000 effective credit assigned to the Bank of France, and in the case of both France and Italy loans made to enable those countries to reimburse Great Britain for purchases made by Great Britain for the use of France and Italy, respectively.

Consideration has here been given only to the bulk of our loans. There are few rules without exceptions and special circumstances had to be given weight in certain cases, but in general the principles stated, which were formulated by our Treasury, were carried into effect, sometimes through the use of complicated methods of procedure forced by war conditions.

The purpose of our loans to the Allies was to win the war. They were made without stint but without waste. We supplied to each country availing of our loans all the dollars each required in excess of its own dollar resources available for purchases in the United States. The dollars we loaned, used in this country by the allied governments, were expended for purposes approved by our own governmental agencies. We did not make loans for purposes which in our judgment were unnecessary and not calculated to help win the war. We kept the amount of our loans down by requiring the countries borrowing of us to use to the extent available their other dollar resources for purposes we approved. In conjunction with Great Britain we furnished the finance required to effect necessary war purchases of other allied governments in neutral markets. Upon final adjustment we held the promissory notes of each allied government to which we had made loans, in an amount corresponding with the financial assistance we had furnished it under the general principles herein outlined.

EUROPE'S MORAL AND MATERIAL OBLIGATIONS TO AMERICA[36]

Is Uncle Sam a Shylock? Did we Americans desert the world after Versailles, when the battle of guns was over and the greater battle of peace had begun? Travelers returning from Europe tell us unpleasant stories of our growing unpopularity there, and the European press seems almost in accord in pronouncing us hardhearted and mercenary. What are the facts? Europe is recovering from her war losses. No one can travel on the continent today without realizing—for the first time since 1918—that the war is over. In its general lines, this story of the rebuilding to date makes interesting reading and justifies us Americans in feeling well satisfied over our part in it.

Our part has been, in the main, unofficial. America in the sense that continental Europe thought of us after the fighting ceased has not participated as a national unit. Some of our people believe that the United States as a government and as a nation should have done so. But it is just because of the honest difference of opinion among our people as to the effectiveness of our traditional policy toward the rest of the world that our government has not taken official part. Nevertheless, our government has shown unparalleled generosity to individuals in need in Europe. If the older continent can forget, we never will—the general food relief of 1919 and the years that followed, as well as the Russian relief, which, taken together, meant a collection and expenditure of close to $1,000,000,000.

There have been to date eight acts in this drama of rebuilding and in every act Americans have played some of the premier rôles. It was necessary, first, to meet

[36] From the article by Louis E. Van Norman, a commercial attaché of the Bureau of Foreign and Domestic Commerce. *Current History*. 25: 311-21. December, 1926.

urgent physical needs; to feed the hungry and put clothes on the backs of the unfortunate tens of thousands in vast areas of middle and eastern Europe. Closely following came the thorny problem of reparations, and this, again, was bound up with debt settlements. Then the Old World stood in sore need of the advice of our technical experts and financiers. Our people were called upon to extend loans to stabilize currencies and to restore the gold standard. Then came the loud call for aid to private industrial enterprises, which later made it possible to plan for engineering and other construction works, such as railroads, ports, waterworks and hydroelectric power development. Finally, there was much work of an educational and sanitation character, such as that done by various foundations and other private funds. It will be interesting to recall how our people responded to these calls for assistance.

Europe's war needs were met and her destitute population housed and fed during hostilities and immediately after the armistice partly through loans made to European governments by the government of the United States and partly through private American charity. Our government sold Liberty Bonds to our people, who poured out their money for this purpose to the total of more than $10,000,000,000. A large proportion of this amount (in the cases of France, Belgium and Italy the largest proportion) was for postarmistice needs and cannot by any fair or reasonable interpretation be called advances for our own protection in lieu of men and war material, as has so often been claimed in Europe. Many of these obligations have now been funded. With principal and accrued interest, on July 1 last they totaled close to $12,000,000,000. Capitalized today on the settlement terms, they would not represent much more than one-third of this sum. As a matter of fact, in many cases we have wiped off the slate all strictly speaking

war debts and are asking only for the repayment of post-armistice obligations at a low rate of interest.

This is not the place to recount in detail the extraordinary achievements of the American Relief Administration, the Red Cross, the Quakers, the Young Men's Christian Association, the Jewish Joint Distribution Committee and other humanitarian agencies in Belgium, Russia, Poland, Yugoslavia and other lands shaken by the horrors of war. The work of the Commission for Relief in Belgium during the war is well known.

Almost an entire continent urgently needed food. Food supplies in quantities and kinds immediately available could be found only in the United States. It was distinctly our responsibility to furnish these supplies and at the same time to help Europe resume production for herself. Our people responded instantly and lavishly. No measure can be applied to the value of our services to hungry and scantily clad Europe, but it is conservative to say that hundreds of millions of dollars were poured out for that purpose.

Under Herbert Hoover, as Allied Director of Relief, the work began with Germany, as the keystone of the arch, so far as feeding the continent was concerned. In view of her indispensable function in the continent's industrial production, Germany presented a task worthy of the statesmanly Hoover. Hungry, without clothing or fuel, with her jobless thousands and her hordes of unemployable soldiers, she was a great social peril to all Europe. It was imperative that she be viewed in the light of the changed mood of her people and that she be prevented from drifting into bolshevism. Moreover, she had to be helped to pay for what she got, and from the first all her hope rested in America. Other countries also needed to be fed. More than forty million mobilized men had to be helped back from a war status to productive labor. At the same time, millions of American food producers had to be saved from staggering losses in

perishable foods by releasing their products for shipment to Europe when and where needed. Working together from Paris, the United States Grain Corporation, the American Relief Administration and the British Ministry of Food, accomplished the gigantic task.

The allied director of relief had to take over the temporary control of all the railroads of central and southern Europe. He had to establish and control some ten thousand miles of telegraph and telephone lines; to arrange barge shipments on the Danube, the Elbe and the Vistula; to arrange for the exchange of food commodities across tariff and embargo barriers between the central and southern European states; to effect the shipment of certain United States army stocks to France; to ship and distribute considerable quantities of American Red Cross clothing; to establish and administer a temporary exchange system with the United States, by which Americans were enabled to send some $7,000,000 to relatives in impoverished countries; to assist in the importation of raw materials; and, in general, to take charge of restorative machinery as yet not functioning under the new governments. "For the first time in history, it fell to the duty of one group of men to calculate the food resources of the world, to secure the surpluses, and with them to feed a score of nations."

From Germany, the great relief machinery turned its attention to Russia. In the space of two years the Relief Administration, sustained by the great heart of the American people, aided by the cooperation of the Soviet government, carried one million tons of food, seed, clothing and medical supplies, in two hundred and fifty voyages of American ships, amounting to sixty thousand carloads on the Russian railways, and fed, at one time, nearly eleven million men, women and children daily. The American Relief Administration fought disease, planted grain fields and gave the urge for the production of human food for nearly one hundred million people. This work, which

utilized more than $66,000,000 from American sympathizers, was carried out by "three hundred men, stretched in a chain from New York to Astrachan, who, for fine spirit, clearness of character, devotion, resourcefulness and ability, have been unequaled." They did a fine job, of which their country will ever be proud. Is it too much to say that they made possible the regeneration of Russia? The same story is to be told of the American Relief Administration and other organizations in their work in other lands of war-torn Europe, in Poland, Yugoslavia, Rumania, Austria, Hungary, Czechoslovakia and Finland, as well as in the small Baltic republics and in northern France, and, finally—through the Near East Relief—in Armenia.

Supported in the beginning by a United States congressional appropriation of $100,000,000 (part of which was later returned) these associated philanthropic agencies referred to above transported and distributed food and other relief supplies to these needy people of the Old World to a total value of more than $900,000,000. With the later efforts, also under private auspices, this huge total has been swelled to a billion.

The Dawes plan was the first concrete expression of American participation in the economic salvage of Europe. . . The formulation of a scheme acceptable to both creditors and debtors, one which would put the problem of war reparations on a working basis, was bound to have a profound psychological effect on the entire world. That is just what the Dawes plan did. As a result the German mark has been stabilized, the gold standard has been restored and the German people have been set to work under as favorable circumstances as possible to earn the money wherewith to pay their obligations. With the reparations bugbear out of the way, debt settlement became possible; loans and credits became practicable. A more rational state of mind was soon evident. A better era dawned, and the entire continent took on a

new life. The salvation of Europe—many of the most important contributions to which came from American initiative and leadership—had begun. The Dawes Committee of Experts was unanimous in its opinion that a new financial institution must be set up in Germany—the Reichsbank—to which all the gold proceeds of the German government loan (America's share being $110,000,000) should be entrusted. This put the currency of the Reich on a gold basis.

Although Germany, under the urge of the Dawes plan, led off in this return to gold, the first nation voluntarily to go back to the single standard was the Union of South Africa. At the invitation of the South African Minister of Finance, Dr. Edwin W. Kemmerer, Professor of Economics and Finance at Princeton University, and Dr. George Vissering, president of the Netherlands Bank, were requested to "investigate the question of the restoration of the gold standard by the Union," independently of the United Kingdom. The commission recommended that, beginning with July 1, 1925, the Union of South Africa should resume gold payments. Some months later Great Britain herself returned once more to the gold standard.* Dr. Kemmerer has acted as adviser to eight different countries in helping them rehabilitate their finances. Recently he went to Poland to help straighten out the financial problems of that new republic. American bankers subscribed $10,000,000 to the government of Finland to enable it to reintroduce the gold standard, as of January 1, 1926; and Sweden also received a loan of $30,000,000, which helped her to return to gold.

American capital flowed in generously to put almost destitute little Austria on her feet. Of the Austrian Reconstruction Loan of $135,000,000 called for by the League of Nations program—our share was $25,000,000. Besides this, our investors took bonds in Austrian mining and electric development companies, the operating of

* Actually on April 28, 1925.—*Eds.*

which (it is hoped in Vienna) will go a long way toward freeing Austria from her fear of a perpetual coal famine, since her former supplies are now within the boundaries of Czechoslovakia. There were other loans to Austria, bringing the total to date up to $28,500,000, exclusive of the reconstruction loan. A foreign loan was required to carry out the reconstruction program of Hungary, of which the American share was $9,000,000. Mr. Jeremiah Smith, a prominent Boston attorney, was selected as Commissioner General of the League of Nations for Hungary, to administer this reconstruction plan. Mr. Smith completed his work successfully last summer and earned the amazed gratitude of the Hungarian people by declining to accept the honorarium of $100,000 which was tendered him. Since then $13,000,000 more has been lent by private American investors to Hungarian municipalities and industrial enterprises.

We come to the investment of money in the form of private loans which have been made to European countries since the war. These loans have cured sick finances, steadied exchanges, revived prostrate industries and built new ones, developed natural resources, repaired and expanded railways, modernized municipal utilities and constructed all sorts of engineering work. The sum total of the American share in this rebuilding of the older continent runs well above $2,000,000,000.

Our first loan of any magnitude to a European government after the war was our share ($110,000,000—the largest share) in the Reparation Gold Loan to Germany in working out the Dawes plan. This was under official auspices. Since then private American capital has flowed into the German states and cities for the rebuilding made necessary by the Great War. . .

The credit of $100,000,000 to France, through the Morgan banking group, with the object of protecting the franc, should not be forgotten, although how much it has been utilized for this purpose is not very definitely

known. The mere fact of its existence and availability seemed to have the effect of "pegging" the franc for a long period. There was a similar loan to Italy of $100,000,000 to help the lira. It is generally admitted in Europe that the Morgan loans of $100,000,000 each to France and Italy have been the chief factors in stabilizing, or approximately stabilizing, the franc and the lira. The Belgian franc also has been affected, since the Belgian unit moves more or less in sympathy with French and Italian exchange. Our investors, however, lent Belgium $50,000,000 in 1925, and on October 26 another $50,000,000 loan was floated in the United States making a total of Belgian government securities held in this country of $260,000,000.

A pervasive and lasting influence for peace and goodwill has been exerted by the activities of the various foundations, supported by American capital, which have been active all over the older continent, in many kinds of scientific, educational, social and philanthropic ways. Outstanding in this field of reconstruction are the labors of the Carnegie Endowment for International Peace and the various activities of the Rockefeller Foundation. The restoration of the Library of Louvain in Belgium and the Cathedral of Rheims in France stand out here. There should also be mentioned the Rockefeller gift of $10,000,000 to the French government for the repair of certain other national monuments, including the Palace of Versailles and the Chateau of Fontainebleau. The American foundations have also been of signal service in helping needy intellectuals, in distributing books, in aiding destitute but worthy students, in making health surveys, and in extending assistance to existing hospitals or establishing new ones. It is impossible to estimate even how much has been spent in this work of beneficence.

Similar to these activities were the so-called "adoptions" of villages and larger units in France, which had suffered particularly from the bombardments. Up to the

beginning of 1922 some nine hundred communes had been "adopted" by towns, cities or groups of individuals in France or abroad, and had received some 15,000,000 francs in cash and 4,000,000 in goods. There have been important private subscriptions in the United States for work in the devastated regions of France, but these have not been exactly tabulated. As a rule they have not been expended so much for the physical restoration of the country as for the improvement of educational facilities, the establishment of hospitals, the care of the needy (especially those of tender years), and in making available, at low cost, supplies which have helped the population to the resumption of its normal life. . .

Finally, American tourists have made their contribution to Europe's recovery, and it has not been a slight contribution. These tourists, while broadening their own horizons, have helped to bring their country before the eyes of the world. During the year 1925 alone they spent more than $400,000,000, of which at least $250,000,000 went to France.

So it goes on steadily. Americans may honestly differ as to the part our government ought to or wisely can play in Europe's return to full normal health. As individuals, beyond a doubt, Americans will continue to make their contributions to the convalescence of the older continent.

A group of Columbia professors recently suggested

A group of Columbia professors recently suggested a general conference to reconsider all war debt settlements. They plainly have in mind a reduction in the payments already agreed upon.

If our government should call a conference on that basis, the invitations would be accepted by the debtor

[37] By Eliot Wadsworth, secretary of the World War Foreign Debt Commission from its organization until April, 1925. *Stone and Webster Journal.* 40: 295-300. March, 1927.

nations. The United States delegates, who presumably would represent the interests of our people, would be in a difficult position.

Those who agitate a re-opening of the debt question are working to undo what the American debt commission has for four years been seeking to do. They are assuming that high officials of our government have been acting unwisely and without ascertaining the facts.

The debt commission was at first composed of Secretaries Mellon, Hughes, and Hoover, Senator Smoot and Congressman Burton. Later ex-Congressman Olney and E. N. Hurley of Chicago were added. It would be hard to find a group of Americans better equipped to do a job involving finance, law, economics and knowledge of public opinion. The commission began its work when international finances were in a bad condition. The world needed confidence and certainty as to the future, not conferences and political jockeying which left unsettled the great problems growing out of the war.

One of the most serious causes of uncertainty was the $10,000,000,000 of demand notes carrying 5 per cent interest reposing in the treasury of the United States. These notes were a liability which no debtor could meet. Until they had been put on some business-like basis they prevented the return of normal trade relations between the nations involved. Until some contract for settlement had been made which the debtor nations might reasonably hope to fulfill they were an actual menace for we were not without men in high public office who were ready to demand their immediate payment in the interest of the American taxpayer and the distressed farmer. If our government had assumed such an attitude it would have forced a default. When they needed to borrow money for stabilization or reconstruction that default would have faced the debtor nations in every money market in the world.

It was the task of the debt commission to bring about the settlement of the debts owing to America on a workable basis but without yielding the principle that a debt is a debt. This has been accomplished.

The commission acted as any banker would in dealing with a customer in temporary distress. Rather than force our debtors to the wall by demanding full payment a reasonable compromise was worked out. Each nation was dealt with separately, all facts as to financial and trade conditions past, present and future were taken into consideration. The commission was not arbitrary except on the one point that a settlement must be made in the interest of international relationships and trade. The unknown liability of demand obligations has been removed from the situation.

Those who criticise these settlements and wish now to have them reconsidered do not seem to realize that the debtors have established a maximum liability and that the amount in every case is far below the original liability. Whether the terms of settlement are final or not only time can tell, but there is no doubt that the early payments are well within present capacity to pay. If it should develop that future payments cannot be met, a new negotiation can always be asked for. On the other hand, if it should develop that the debtors could pay more than is called for in the present settlements the United States has no right to demand a revision.

There is much evidence that conditions all over Europe are steadily improving, that there is ample employment, an increasing supply of capital and a growing confidence. One of the great factors in that new confidence lies in the final settlement of the war debts to the United States.

Other factors which tended to uncertainty have also been eliminated. The demand of the Allies that Germany pay $32,000,000,000 in reparations has been

brought to a workable compromise. The claim of the United States for $240,000,000 in payment for its army of occupation has been settled, budgets are being put on a practical basis, wildly fluctuating currencies are stabilizing. America has not been niggardly in this work.

This is no time to agitate a reopening of the debt and reparation questions. What the world wants is settlement, not unsettlement, peace of mind as well as peace from battle. Extraordinary strides have been made in reaching this goal.

In addition to urging revision of the debt settlements, cancellation is sometimes advocated.

Primarily, the question of canceling any legally contracted debt is a far-reaching one. It can hardly be questioned that the good of a community or of the community of nations is served by a recognition of contracts and debts as binding obligations. Nothing would create greater uncertainty than to raise a question as to whether it is proper to insist upon the carrying out of a legal promise. The intricate relationships involved by modern business, the fact that nations are coming in closer contact every day, make it all the more important that transactions involving credit should be lived up to. The very people who advocate cancellation, would be the first to regret any act which would handicap the United States in loaning money to a nation in the time of war or distress. Suppose another great war should develop in Europe and that America's only contribution could be in making loans to the side fighting for what we judged a righteous cause. Can there be any doubt that an almost insuperable objection would come from great numbers of our people to the making of such loans if the debts of the last war had been canceled?

Turning this argument in another way, suppose America should have need in a crisis to borrow money in Europe. Could she do it when the European nations

must realize that a demand for cancellation of the debt would surely follow? The argument for such cancellation would be too obvious if America now cancels the debts of the last war.

The argument is advanced that America being wealthy and prosperous and European countries being poor and heavily taxed, we should in the interests of charity cancel the debts. This argument really needs no serious discussion on either side. It might apply in any walk of life, to the rich creditor and the poor debtor.

It is urged that America's loans were made at a period when she should have been fighting on the line. I will not discuss the ethics of that point. As regards Finland, Estonia, Latvia, Lithuania, Poland, Czechoslovakia, Hungary, Austria, Armenia, and Rumania the argument does not apply. All loans to these countries were made after the armistice. France's borrowing after the armistice, with interest, amounts to $1,600,000,000; Belgium's $258,000,000. Figuring the present value of the payments to be received in our debt settlements with these countries the United States is receiving no more than its postarmistice loans.

England borrowed $660,000,000 after the armistice. The present value of her scheduled payments is $3,300,000,000. To England alone, therefore, might be applied the argument for cancellation because of America's absence from the fighting line. If it be considered that America began to fight at Chateau-Thierry, then this particular argument for cancellation is of no value in any case.

As a legal proposition taking into account the words of President Wilson, the debates in Congress and the Liberty Loan Acts authorizing advances to the Allies, there can be no question that the United States did not make gifts and did make loans. In doing this we only followed the system which had been established between the Allies themselves from the beginning of the war.

The United States government acting through the President and the Congress is in the position of a trustee for all the taxpayers. Our government borrowed the money which was loaned to Europe. The American taxpayers are paying the interest on the debt so incurred.

Congress understands that if the debts are canceled then the taxpayers must take from their own pockets $200,000,000 each year in additional taxes to replace the interests now received on the war debts. Congress understands that the answer to such a proposition would be a loud "No." We may decry that fact, but it is a very practical difficulty which confronts anyone who would undertake a reduction or cancellation of the debts.

Perhaps it is not wise to mention in this connection the League of Nations, but certainly the ultimate possibilities of the present league or any league lie in the credit and responsibility of a nation's given word either in a treaty, a promise to pay or any other form.

It is the hope of the league that in case of one nation becoming aggressive and unfair, other nations may pool their resources in men, material or money and force the disturbing nation to behave itself.

Whenever the nations are called to pool their interests they must of necessity become borrowers and lenders. If the principle is to be established that those who borrow in such times will not be called upon to pay when the emergency is over, then the possibility of obtaining cooperation between the nations would seem remote.

There is one other argument which is advanced exactly opposite to the altruistic one that we should cancel because of our wealth. It is based upon the argument that America will be seriously damaged by receiving the payments as they come due. To answer such a statement requires an analysis of foreign trade and exchange. This I will not attempt, but it would seem probable that if we cannot withstand the shock of being

paid we certainly cannot indulge in the luxury of canceling. The annual payment today by Europe to America on the debts is about $200,000,000. The values of America's imports and exports are approximately $4,500,000,000. We have loaned a billion dollars a year outside the country for the last three years. Our tourists spend at least $500,000,000 a year outside the country. In any such ebb and flow of money as these transactions involve, it is hardly possible that the annual instalments on the war debt should make the difference between prosperity and hard times in the United States. Foreign trade doubles at least every fifteen years, war debt payments will, therefore, become a smaller and smaller factor in our total foreign transactions.

I have no doubt that America can afford to receive the debt payments as scheduled, and will suffer no harm. I am confident that any country which handles its finances properly, cuts down its war debt and lightens the burden on its taxpayers will find little difficulty in carrying in its budget the annual instalments on its debt to this country.

It hardly seems possible that a defence of America's attitude toward Europe since the war is necessary, knowledge of the facts should be all that is needed for a proper understanding. I doubt if in the history of all times there is any record of a nation having played a dominant part in a great war, turned practical defeat into victory and in return asked nothing but a reasonable attitude on the part of all nations in solving the problems of reconstruction and relief which the war left in its wake.

FAVORING REVISION

OUR WAR DEBT SETTLEMENTS[38]

The war became our war on the 6th of April, 1917. Let me try to recall to your fading memory what happened next. As President Wilson had "kept us out of war," so also he had kept us from making any preparations for its eventuality. When we suddenly found ourselves involved we also found ourselves powerless to fire a shot. We had no army, and it was clear that a year, and even more, would elapse before we could take any substantial part in battle. Were we during all that time to remain mere spectators while the youth of France and Belgium and England and Italy drenched the earth with their blood in defense of what was our cause as well as their own?

After being trampled under foot, and kicked and spat upon for two and a half years, when at last we had decided to defend our rights, were we still to wait for another fifteen months before doing anything? No. There remained one way, and only one way, in which we could contribute immediately. We had no men ready to send, but God knows we had plenty of money and plenty of munitions, for we had been making munitions in vast quantities and selling them to the battling nations at tremendous prices for several years. We had iron, steel, copper, chemicals, shells, rifles, food, clothing, and almost everything our partners needed, except men.

Within a week after our entrance a bill was introduced in Congress to make these things available to our partners. It authorized our National Treasury to extend to "the governments then engaged in war with the

[38] By Congressman A. Piatt Andrew, organizer and director of the American Field Service with the French army, later Lt. Col. in the United States army. From a debate with Congressman Theodore E. Burton. Foreign Policy Association, Pamphlet no. 44. April, 1927.

enemies of the United States" credits which they could use in purchasing these supplies from American dealers and producers. Scarcely more than a fortnight had elapsed after our declaration before this bill had passed both Houses of Congress and become a law. It began with these significant words, "For the purpose of more effectually providing for the (our) national security and defense, and prosecuting the (our) war." It made it possible for us to cooperate in the war with supplies, if we could not with men.

It is, of course, a fact to which the debt collectors point with legal validity that these "credits" then granted to our partners were not described in the law as gifts or contributions or subsidies, but were technically in the form of loans. That is perfectly true, and no one can or will deny it. But if you will read the debate in Congress at the time, what was said by leaders in the Senate and House, men from east, west, north and south, Republicans and Democrats alike, you will have unmistakable proof that the credits offered to the Allies in 1917 and 1918 were not regarded as ordinary loans, much less as investments.[39] They were considered by practically all who spoke as America's contribution to the prosecution of the war at a time when we were unable to participate in any other way. Not only was doubt expressed as to whether these loans would ever be repaid, but indifference was declared both by Democrats and Republicans as to their eventual repayment, and these declarations of indifference were never seriously challenged.

Facing the necessity of instant action those in charge of the bill seem to have selected the form of a loan without deliberation, because it offered the easiest and quickest way to distribute our supplies among our several war partners where they were most needed.

The bill being passed, the respective ambassadors of our associates gave receipts for the mammoth sums

[39] Extracts from the debates follow this article.

needed to purchase from American dealers and producers munitions and supplies at the prevailing war prices, but no bonds were issued, as would be customary with an ordinary commercial loan. In view of the great danger of the war being lost, no one at that time worried about whether the loans would ever be repaid or whether we would consider asking for their repayment. Monsieur Jusserand, the then French ambassador, who handled the credits extended to his country, has written as follows concerning his dealings with our Treasury:

> The amplest and most generous offers of funds were made us and we were told not to worry about the future. A movement had been set on foot in a truly noble spirit by the *New York World* for the presentation of $1,000,000,000 as a gift to France, and Ambassador Page was writing to his brother, "A gift of $1,000,000,000 to France will fix Franco-American history all right for several centuries. Push it through."
>
> We were, however, advised in such a way that we could not dissent, not to encourage the proposition, and were assured that we would have no cause for regret. Much more money, as much as we would ever need, would be at our disposal; we need not trouble about interest, and as for repayments they would be easily arranged in the future.

Fourteen long months passed after we declared war before our troops in any substantial numbers were engaged at the front, and I want you to note well that during that period between our declaration and our participation France alone lost two hundred and seventy thousand dead and nearly half a million wounded fighting what then were our battles as well as their own.

I cannot tell you how many were lost during the same period by England, Belgium, and Italy, but it would seem safe to say that their aggregate losses must at least have equaled those of France. Think what that means. We were in the war all told for nineteen months before the guns ceased firing and during three-quarters of that time we only furnished materials while our partners furnished human lives. They sacrificed half a million lives, and a million wounded in holding the enemy back after

we entered the war and before we could take any part in it. And now from the point of view of our erstwhile partners we are asking the survivors and their descendants to pay for the uniforms which these men wore and for the guns and ammunition which they used when they died or were mutilated on a battle front that was ours as well as theirs. Roland Dorgeles, a French veteran and a man of letters, whose book of wartime stories called the *Croix de Bois* many of you probably know, has expressed this thought in poignant words, "On the great book of debts," he says, referring to us, "they have not forgotten a box of corned beef or a ton of coal, but they have not counted a drop of blood. Life is given, coal is sold."

And now we come to the drab story of the settlements and as the time is short we must concentrate our attention upon their essential features.

Our government made loans after the armistice to eighteen or nineteen countries for varying reasons (some of which I have never been able to fathom). We went so far as to lend to Nicaragua and even to one ex-enemy country—Austria. We need not discuss the settlements arranged with these countries. The terms in some cases were particularly generous—Austria, for example, having been given a complete moratorium for twenty years. Limited as we are for time, let us confine our attention to the settlements made with countries that were our active partners in the war and to which credits were extended while the war was going on, namely, to Belgium, France, Great Britain, and Italy (to name them alphabetically). Unfortunately time permits only the most rapid examination of these settlements.

Take, first, the settlement with Belgium, the most innocent and the most complete of the war's victims, toward whom our people would expect the greatest leniency. The United States had extended to Belgium credits totaling $377,000,000, and the United States now

asks Belgium to pay back not only every cent of the capital amount but $350,000,000 of interest in addition. The total that Belgium will be required to pay will be nearly double what she borrowed. But that is not all. There is a special feature in the Belgian settlement to which I would particularly draw your attention. During the period before the armistice, when Belgium was under the Kaiser's heel and her government was in exile, Great Britain loaned to her more than $500,000,000, and France loaned to her more than $600,000,000; and though both Great Britain and France are in greater need of repayment than we are, they have not asked and never will ask Belgium to repay. The United States during this period loaned Belgium less than a third as much—$171,000,000—and President Wilson assured her representatives that we would never ask her to repay this loan. Yet despite Mr. Wilson's promise and notwithstanding that we are the richest country on the earth, the United States has the distinction of being the only country to demand repayment of such loans. You may be proud of that distinction, but I am not. Mr. Burton will tell you that we forgave the interest on that part of Belgium's debt, but in that half-hearted acknowledgment of President Wilson's promise there is little ground for pride.

Turn next to the nation that bore the heaviest agony of the war, on whose soil the armies of the world wrought destruction for four interminable years, whose towns and homes and farms we helped to destroy, the nation to which we owe our very existence. How did the debt commission deal with France? We had extended to France credits amounting altogether to $3,340,000,000 and we are asking from France more than double that amount, roughly, $6,850,000,000. We are to recover the principal of the loans, plus $3,500,000,000 of interest.

Take Great Britain. The Debt Commission has been even more successful with her, for the United States is

to get from Great Britain more than two and one-half times what she borrowed. We loaned Great Britain $4,277,000,000, and we are going to get back $11,106,-000,000.

To Italy we have been somewhat more generous, for we are only asking her to pay us what she borrowed with about $700,000,000 additional.

I know what the debt collectors say, that we are not going to get the money back right away and that in ordinary business when men loan money they are entitled to interest, and to interest upon that interest, and to interest upon the interest upon that interest and so on. And I know the statement issued by Mr. Mellon last summer in which, in order to allay criticism of the debt settlements, instead of admitting that we were getting back all of the $10,000,000,000 that we loaned to the Allies, with an approximately equal amount added for interest, he endeavored to prove that we had really canceled 19 per cent of the British debt, more than half of the French and Belgian debts, and 75 per cent of the Italian debt. That was not an ingenuous statement. It gave a very false impression to the general public who are not in a position to analyze the basis of his calculation. Without tormenting you with a lot of figures, I can tell you, however, in fairly simple language by what method of computation he arrived at that result. He was estimating what he calls the "present value" of the settlements by discounting all of the payments to be made during the next sixty-two years at 5 per cent reckoned semi-annually. But the law authorizing the loans never suggested that they should bear a rate of interest as high as 5 per cent. The rate of discount he used was purely arbitrary, and if Mr. Mellon, in making the calculation, had raised the rate of discount a little higher, he could have proved with equal logic that, although the Allies were paying us twice as much as they had

borrowed, they were really paying us nothing at all, and that we had canceled all of their debts.

While we are on the subject of "present value," there is another very important consideration bearing upon the settlements which Mr. Mellon and the debt commission quite left out of the account. The dollars which we today are reclaiming are worth far more than the dollars which we loaned. A dollar, of course, is only a measure of value. It is worth what it will buy, and the dollar today is worth at least 50 per cent more measured in merchandise and materials than was the dollar of 1917 and 1918.

The wheat which our Allies bought with our loans sold for as high as $2.40 per bushel. Now it sells for less than $1.50. Freight for transporting that wheat from New York to Havre toward the end of the war cost from $60 to $75 per ton. Today it costs not half as much. Judging from the best price-index numbers available, our debtors in repaying the dollars they borrowed in war time will pay us the equivalent of half again as much merchandise as that which they then obtained. And what is even more significant, this tendency of the dollar to appreciate is apt to continue for years to come. The processes of deflation after the Civil War went on for thirty years. After the Napoleonic wars nearly forty years elapsed before prices ceased to decline. Even with the decline in prices that has already occurred, for every dollar repaid we shall get 50 per cent more than we loaned, and if history repeats itself and prices continue to decline we shall reap a vastly greater profit. We are really asking our partners in the war not only to repay us what we placed at their disposal in the hours of common danger, when we were unable otherwise to do our part; we are asking them to repay us with interest, and in money that is already worth 50 per cent more than what they borrowed and that is likely

to be worth still more before the settlements are completed.

But finally, even assuming that the debt settlements were fair and just—and I may say in passing that Congress asked the Debt Funding Commission to make such settlements as they believed to be "just," and never used that harsh phrase "capacity to pay," which was an invention of the commission itself, and which they, having invented, construed to cover the next three generations—even supposing the settlements to be just in terms of ordinary business, does it accord with the spirit or the traditions or the interests of the American people to pursue these settlements relentlessly for the long-drawn period of sixty-two years? Remembering the circumstances under which the obligations were contracted, remembering the purposes for which they were used, remembering that the world is trying to forget the Great War and its animosities and to start afresh, remembering that we are the richest people that the sun ever shone upon and that our debtors are relatively poor, might we not without too much sacrifice find some way to relieve their children and their grandchildren of these war-time burdens, and so, without running any risk of the entanglements that cause so much fear in certain quarters, help along the recovery of a war-sick world?

OUR PREARMISTICE LOANS [40]

. . . The character and purpose of the Act [41] are so crucial for the understanding of the whole question of what are called "the allied debts" that I ask your indulgence if I recall to your memory a few of the things said on the floor of this House and of the Senate when the bill was under discussion. I will cite only the words of

[40] From the speech in the House of Representatives, January, 1926, by Congressman A. Piatt Andrew. *Congressional Record.* January 13, 1926.

[41] First Liberty Loan Act of April 24, 1917.

influential members, whose reputation and standing are known to you all, men from east, west, north and south, irrespective of whether they were Republicans or Democrats. There were no sectional or party lines in those days when the country faced war. I think that you will be interested to hear some of the opinions expressed at that time, for they have a bearing upon the questions we face today.

Mr. Mann, of Illinois, stated the case very clearly on April 14, 1917:

> We are not prepared to place men in the field. We are not prepared to fight with our army. We are not prepared to do very much with our navy; not because we do not have some navy but because there is little opportunity for the navy to engage in actual war at this time. . . The only way left to us is to help finance those nations who are fighting our enemy. . . I think it is our highest duty in the making of war to give aid to those who are fighting the enemy against whom we have declared war.

Then he added:

> I only hope and pray that the aid thus given may be effectual enough to end the war before we send our boys to the trenches.

Let me quote next Mr. Fordney, of Michigan:

> My idea is that those people are much in need of money to prosecute this war. There is no other object on the face of the earth in the minds of the American people in loaning European nations this money. Their only purpose is to aid them in the best way possible to fight our battle across the sea without calling upon our men to go there.

And now Mr. Mondell, of Wyoming:

> We cannot say and we shall not say that we will not send our forces to any battle front where they may be needed to accomplish the purpose of the declaration of the Congress; but we sincerely hope that we shall not be called upon to do that to the extent of sending men to fight overseas. But we can effectively and in the immediate future arm and strengthen and support those who are, since our declaration of war, fighting our battles. They have already been heartened and strengthened by our declaration of participation in the con-

flict, and if we can hearten and strengthen them further by large supplies of funds and strengthening of credit it is our duty and to our advantage to do so.

That is what three Republican leaders thought. Let us pass to the other side of the House. First, Mr. Kitchin, of North Carolina, chairman of the Ways and Means Committee:

You will understand that they will be fighting with our money their battles, and we will be fighting with our money our battles, too.

And he added, perhaps as an additional incentive—

We are of the opinion that most of this money that we will loan to the Allies for the purchase of their bonds will of necessity have to be expended in the United States.

Mr. Fitzgerald, chairman of the Appropriations Committee, did not seem to be very much concerned about eventual payment. He said:

I should gladly vote to give $6,000,000,000 to the nations arrayed on the same side with us if we could win this war without sacrificing American blood and American lives. I have little sympathy with the suggestion that possibly we will not get our money back. I care not so much if we do if American blood and American lives be preserved by the grant of the money.

Mr. Rainey evidently did not consider the credits authorized by the bill as ordinary loans. He said:

We are not making this loan for the purpose of making an investment of our funds. We are making this loan in order to further our interests primarily in this World War, and from that moment when the Congress of the United States declared that a state of war existed between this country and Germany every blow struck at Germany by any of her enemies was struck also in our interest.

Now, listen to Mr. LaGuardia, of New York, who, as he said, did not figure on the complete restitution of the $3,000,000,000 loan to be made to foreign governments:

Yes; I believe that a good portion will be in due time returned, but I am certain that some of it will have to be placed on the profit-and-loss column of Uncle Sam's books. Let us

understand that clearly now and not be deceived later. Even so, if this brings about a speedy termination of the European war and permanent peace to our own country, it is a good investment at that.

And last of all, so far as the House is concerned, I want to quote from another distinguished member, who happily is also still with us and held in the highest honor, Mr. Madden, of Illinois:

We have already declared war, and we are not prepared to begin to fight the war we have declared. If we can find somebody else to fight the war for us with our money we ought not to hesitate to grant them the credit which they want and must have. There is no way to win this war except by men and money. We are not prepared to furnish the men today, and somebody else is prepared to furnish the men if we furnish the money. I do not agree with the statement that we are furnishing this money for somebody else to wage war on their own account, but we are doing our part to wage the war in which we are engaged.

And again, on the same day, Mr. Madden said:

If the men who have not the money and who are able to fight are willing to fight and offer their lives for the preservation of American honor and for the liberty of the world, then the men who are not able to fight but who have had the good fortune to make money ought to help to pay the bill. . . Everyone knows that we will not have an army in the field for a year, or more than a year, and our duty to posterity and to liberty is to do everything we can today to win victory for the American people and for the liberty of the world.

Mr. Miller, of Minnesota, asked:

Do I understand the gentleman to mean that these loans we are going to make are not to be repaid?

And Mr. Madden replied:

I would not care whether they were repaid or not. We are starting out to win a victory, as I understand it, to maintain American rights; and if we can maintain American rights by furnishing money to somebody willing to fight our battles until we are prepared to fight those battles for ourselves we ought to do it.

Mr. Moore, of Pennsylvania, inquired:

The gentleman knows that if the foreign governments do not pay the money they borrow from us the people of the United States will have to pay it?

And again Mr. Madden replied:

I am one of the American people who is ready to pay my share of the obligation, and I shall have to pay as much of the money that is to be raised in taxes as most of the men in the United States will have to pay, and I am ready to do it to the extent of every dollar I own.

What was said in the Senate was very like what had been said in the House. I will quote only a few passages, and first of all from the then chairman of the Finance Committee, Senator Simmons, of North Carolina:

Mr. President, we have not the men to send over there at present to help fight our battles; our navy possibly can be of but very little use in present conditions. It will be long, weary months of waiting before we shall be able to render much assistance to our Allies in the field. The help this bill offers is an earnest and a guaranty which carries hope and assurance of greater assistance and helpfulness in the future. It will assure them that in this great cause we stand ready to risk life and fortune. Let us do this heartily, cordially, unanimously, and without hesitation; let us do it in the spirit of men who thoroughly understand and comprehend the great cause in which we are fighting, the great thing that we are undertaking, and who are entering into it without thought of profits, without thought of financial loss, without thought of bodily discomfort, without thought of the sacrifice, but ready and willing to make every sacrifice.

A little later Senator McCumber, of North Dakota, who subsequently became chairman of the Finance Committee, spoke as follows:

While we are recognizing that we are putting $7,000,000,000 into the battle, we must not fail to recognize that we are not as yet putting in a single one of our American soldiers, while blood is being poured out by our Allies in unstinted measure. . . It is probably true that more than a quarter of a million men are going down to death or are being wounded or captured every month during the contest. Therefore, while they are suffering to that extent, we ought to be mighty liberal in the expenditure of money when we can take no part in the real battle, which today is the battle of the American people.

Let me quote next from the present chairman of the Finance Committee, Senator Smoot, of Utah:

The $3,000,000,000 which we are proposing to raise by a bond issue for the purpose of advancing it to the Allies, I believe, Mr. President, will all be repaid; but if it should not be, or if

not one penny of it is returned, I wish to say now that every penny of it will be expended for the defense of the principles in which we believe and which we entered the war to uphold. Mr. President, I think that every dollar that will be expended under the provisions of this bill, if it is expended honestly, will be for the benefit of the United States, whether spent by us or by the Allies.

The junior senator from Iowa, Senator Kenyon, also spoke on that day, and among other things that he said was this:

I want to say this for myself, Mr. President, that I hope one of these loans, if we make it, will never be paid and that we will never ask that it be paid. We owe more to the Republic of France for what it has done for us than we can ever repay... I never want to see this government ask France to return the loan which we may make to her.

Finally, a word from the senior senator from Iowa [Senator Cummins] and I think you will agree that he displayed not only insight but a foresight that places him in the ranks of the prophets. He said:

I am perfectly willing to give to any of the allied nations the money which they need to carry on our war, for it is now our war. I would give it to them just as freely as I would vote to equip an army or to maintain a navy of our own; but I shrink from the consequences that will, in all human probability, flow from the course which is suggested in this bill. . . I should like to give to the allied nations $3,000,000,000, if they need the contribution, with never a thought of its repayment at any time or under any circumstances; I should like to give that or whatever sum may be thought needed as our donation to one phase of our own war, but I fear that in the years to come the fact that the United States has in its possession bonds of these great countries which, when they emerge from the war will all be bankrupt, will create an embarrassment from which the men of these times will find it difficult to escape. I think it will cost us more to take those bonds and to hold them against these governments than it would cost us to give the money, with a generous and patriotic spirit, to do something which for the time being, for the moment, we are unable to do with our own army and our own navy.

I leave it to you, was not Senator Cummins right both in his prognostications as to what would happen and his advice as to what should have been done?

If you have followed the quotations which I have

read, you will have observed that throughout the discussion the credits to be established were not considered as ordinary loans, much less as investments. They were regarded by congressmen and senators alike as America's contribution to the prosecution of the war at a time when we were unable to participate in any other way. Among the leaders in both Houses, not only was doubt expressed as to whether these loans would ever be repaid, but indifference was declared both by Democratic and Republican leaders as to their eventual repayment, and these declarations of indifference were not very seriously challenged.

We had not entered the war for the sake of other countries. It was not because Belgium was invaded or because France was being crushed. It was not on behalf of England or Italy or any other country than our own United States. It was because American men, women, and children were being killed, American rights trampled upon, American property destroyed. It was because we had discovered the German government inciting an invasion from Mexico and promising that country a part of our territory in case of victory. It was our war on our own behalf because of our own manifold and sufficient grievances.

Yet, we were unable, and for fourteen months were destined to be unable to take any active part in the prosecution of that war. By force of circumstance we were virtually placed in a situation like that voluntarily assumed by many men in the North during the Civil War who having been drafted for the Union armies hired substitutes to take their places. Being unable for lack of proper preparation to fight our own battles we were obliged to hire substitutes, as Mr. Madden so clearly expressed it at the time, "to fight our battles until we were prepared to fight those battles ourselves."

All that we could do during the fourteen months of preparation was to help other armies with funds. And that we did. And the greater part of the loans whose

settlement we are now discussing is the result. I need not remind you that the service to us ourselves of the credits we extended to our associates during those months was no less than the service to them. If at any time between April, 1917, and June, 1918, when our effective participation began those associates had failed and had been forced to make a separate peace, or if they had chosen to make a separate peace, no one can estimate what our war would have cost in American lives and treasure. No one can calculate what their holding of the line saved to the United States in men and in money. But certainly the funds we offered freely to them then, and which we are reclaiming now, saved a vast number of precious lives for us.

As General Pershing said in a speech in Denver, August 23, 1924:

> If it had not been that the Allies were able to hold the lines for fifteen months after we entered the war, held them with the support of the loans we had made, the war might have been lost. We scarcely realize what those loans meant to the Allies and to us.

And then he added:

> It seems to me that there is some middle ground where we should bear a certain part of the expense in maintaining the allied armies on the front while we were preparing, instead of calling all this money a loan and insisting upon its repayment.

THE INTERALLIED DEBTS AND AMERICAN POLICY [42]

The great bulk of the interallied debts had their origin in the war-time requirements of the European Allies for manufactures and for raw materials, that were needed either directly in the war itself or for the support of the civilian populations. The continental Allies called such high percentages of their people to arms that the remaining civilian population could not produce adequate

[42] From an article by James W. Angell, associate professor of economics in Columbia University. *International Conciliation,* no. 230: 188-202. May, 1927.

quantities of munitions for the troops. They had to secure the balance from England, and after April, 1917, from the United States. Similarly all of them, even including England, were compelled to turn to the United States for certain foodstuffs and essential raw materials. To pay for these purchases huge supplies of sterling and of dollars were required, supplies far in excess of anything procurable in the foreign exchange markets. The only way of securing them in sufficient volume was the floating of loans in England and in the United States. As a practical matter, this meant primarily borrowing *between governments.*[43] In that situation—in the pressing emergency of war—lies the origin of over 90 per cent of the original intergovernmental debts. The remainder is accounted for chiefly by loans for relief and reconstruction made after the armistice.

By the end of 1918, shortly after the cessation of hostilities, the nominal gross total of the inter-governmental debts had reached the huge sum of $21,500,000,000.[44] Every country involved, except the United States, was a debtor; but because of the interchange of operations and accounts many were also creditors. England and the United States, however, were the only nations with a *net surplus* of credits. The positions at the close of 1918 were these. The United States was owed $7,000,000,000, by seven different countries. England was owed, *net,* $2,500,000,000 not including the debts from her Dominions. France was in debt $1,000,000,000 *net,* Italy $3,000,000,000, and Russia $3,500,000,000. The other countries owed smaller and relatively unimportant amounts.

[43] About $1,500,000,000 was raised by the direct sale of foreign government obligations in the open investment markets here, up to April, 1917. About $2,000,000,000 was secured, up to 1919, by the return of American securities held abroad. (National Industrial Conference Board, *The Inter-Ally Debts.* p. 43, 44).

[44] The *net* debts, the sum of the net debits (or the sum of the net credits) resulting after each country's total nominal credits had been offset as far as possible against its nominal debits, were of course much smaller. The *net* total at the time of the armistice was a little over $9,000,000,000.

By 1920, the nominal total had risen to nearly $25,000,000,000. The United States alone was owed $9,500,000,000, now due from eleven countries.

In 1923, when the first important negotiations for a settlement of the debts began, the nominal gross total was about $28,000,000,000.[45] The United States was owed roughly $11,000,000,000. England's *gross* credit was of nearly equal size, but her debts reduced her *net* credit to $3,750,000,000. France was in debt to the extent of $3,500,000,000 *net;* Italy $4,333,000,000; and Russia $4,500,000,000. The Russian debt, incidentally, is probably not recoverable. The chief Russian creditors are England, $3,000,000,000; France, $1,000,000,000, and the United States, $25,000,000.

Thus in the five years after the armistice the nominal gross total of the debts had risen from $21,500,000,000 to $28,000,000,000. That is, the debts had increased by nearly a third *after* hostilities ceased.[46] There were three reasons for this increase. First, and most important, military outlays did not stop dead with the signing of the armistice. It was necessary to keep troops under arms, to feed and clothe them, for many months after November 11, 1918. This fact is usually entirely ignored. The end of the war between the United States and Germany, for example, was officially proclaimed only as of July 2, 1921—two years and a half after the armistice. Second, innumerable loans were negotiated for reconstruction and relief—a new kind of obligation. Finally, the compounding of unpaid interest charges was of course very heavy.

So much for the origin and size of the obligations between the allied governments. There remain the reparations charges on Germany, about which little can be said

[45] The *net* total, as see the preceding footnote, was much smaller: about $16,000,000,000.

[46] The *net* totals, as see the two preceding footnotes, increased in a much larger proportion, by nearly 80 per cent. This was due to the fact that the postarmistice loans were made almost entirely to countries which were not at the same time lenders themselves.

here. If the scheduled reparations and prior treaty payments are capitalized at 4¼ per cent over sixty-two years, their "present" or "cash" value is about $12,750,000,000. The addition of this item raises the nominal gross principal sum of the world's present inter-governmental obligations to the enormous figure of $40,000,000,000. [47]

Bearing these characteristics of the inter-governmental debt situation in mind, we come now to the position of the United States, the largest single creditor.

The sum due the United States at the time of the armistice, to repeat, was $7,000,000,000. By the end of 1924, additional advances for military purposes, reconstruction and relief loans, and the accumulation of unpaid interest had raised the nominal total to about $12,000,000,000. Of this sum less than $900,000,000 were for relief and reconstruction advances—that is, less than 8 per cent. At the present time funding agreements have been made and ratified with twelve of the seventeen debtor countries, while that with France—the Mellon-Bérenger agreement—is still pending. The remaining unfunded debts, due from Armenia, Austria, Greece and Russia, amount to only $240,000,000 of original principal, or 2.4 per cent of the total. [48]

What has been our policy in funding these debts? What have we done, and why, and how is our action likely to affect our international future?

The loans granted to the Allies for military purposes were made under authority of certain clauses in the various Liberty and Victory Loan Acts. The language of these acts was quite unmistakable. They provided that the obligations purchased by our government from foreign governments should bear the same rate of interest, and be made under the same general terms, as the

[47] The *net* total is about $21,000,000,000.

[48] The Austrian debt has been extended twenty years by agreement. In Armenia there is no government, while the Russian government has not yet been recognized. The Greek debt is in controversy. [The Greek debt was funded December 5, 1927].

corresponding obligations of the United States issued to provide the necessary funds. If this provision were carried out, the debts now due us would bear from 4 to 5 per cent interest, and would be amortized over the next ten to thirty years. Similarly the War Debt Funding Act of 1922 stressed the repayment in full of the principal of the debts. It authorized a reduction of the interest charges to 4¼ per cent, and an extension of the period of payment to twenty-five years; but in most other respects it paralleled the stipulations of the Liberty Loan Acts, except for a passing reference to justice.

But when the time came for making actual funding agreements, in 1923 and subsequent years, the War Debt Funding Commission proceeded on a different and more moderate basis. It has admittedly secured the repayment of the principal of all the loans, if the principal be regarded simply as a number of dollars. But it has reduced the interest charges in all cases, and has spread out the payments on account of principal over sixty-two years. This action has produced terms very unlike the terms of the national debt of the United States as it now exists, and has resulted in lowering the "present" or "cash" value of the scheduled payments to a figure far below the original principal sum. Despite the somewhat confusing statements of the Treasury, the principal of the debts therefore *has* in effect been reduced very materially. Just how much, we shall see in a moment.

The principle set forth in the Liberty Loan Acts, in other words, has been abandoned. The new principle developed by the Debt Commission, the basis on which it has acted, is that of "capacity to pay." The idea underlying the use of this principle is ethically sound, and entirely comprehensible. The Debt Commission found that the debtors were in severe financial straits; and that to demand payment in full, on the same basis as that of the obligations issued by the American government it-

self, would undoubtedly bring some of them close to bankruptcy. Proceeding in an entirely justifiable manner, the commission therefore undertook to scale the debts and payments down to a level more in accordance with the supposed capacity of the debtors to pay. The motive, within its limits, was reasonable and even generous, but the particular method adopted to give this motive effect is perhaps open to question. Let us postpone any criticism of the principle of "capacity to pay" for a moment, however, and look at the results it has yielded. As examples of four different types of settlement, take the agreements made with England, France, Italy and Belgium. They are the four leading debtors, and owe 96 per cent of the $11,500,000,000 of funded obligations due to our government.[49]

(1) *Great Britain.* The agreement with Great Britain was signed June 19, 1923. The principal sum of the debt as funded is $4,600,000,000. The debt bears interest at 3 per cent through 1932, and thereafter at 3½ per cent. The payments run over sixty-two years, terminating in 1984. The total volume of the payments to be made in this period is a little over $11,000,000,000. At an interest rate of 4¼ per cent—what the United States is paying on the bulk of its own borrowings—the present cash value of the payments is $3,792,000,000.[50] Contrasted with a funded nominal principal of $4,600,000,000, this means that the effective principal sum of the debt has been reduced by 18 per cent.

This is the general type of settlement used in the numerical majority of the agreements.

(2) *Belgium.* The agreement with Belgium was signed August 18, 1925. The principal of the debt as

[49] Figures on totals from *Monthly Review of the Federal Reserve Bank of New York,* June, 1926. p. 4; taken in turn from figures furnished by the United States Treasury.

[50] The "present" value of a given sum receivable at a given future date is that sum which when compounded at (here) 4¼ per cent for the indicated number of years, will equal the sum receivable at the future date. The calculation of "present" values, made with an annuity table, has to be done separately for each payment.

funded is $418,000,000. The prearmistice portion of the debt, 36 per cent of the total, bears no interest, and is to be repaid over sixty-two years. The postarmistice portion bears a small but increasing rate of interest to 1935, and thereafter 3½ per cent. These payments also run sixty-two years, and cease in 1987. The present cash value of the two sets of payments combined is $226,000,000. The effective reduction in the principal of the debt is therefore 46 per cent.

(3) *Italy*. The Italian agreement was signed November 15, 1925. The principal of the debt as funded is $2,042,000,000. No interest is charged for the first five years. Interest then begins, in 1930, at ⅛ of 1 per cent, and rises gradually to 2 per cent in 1980. The payments run for sixty-two years, and cease in 1987. Their present value is $538,000,000, and the effective reduction in the principal of the debt is 74 per cent.

(4) *France*. The Mellon-Bérenger agreement with France, not yet ratified, was signed April 29, 1926. The principal of the debt as funded is $4,025,000,000. No interest is charged for the first five years. Interest then begins, in 1930, at 1 per cent, and rises gradually to 3½ per cent in and after 1966. The payments run for sixty-two years, and cease in 1987. The present cash value of the payments is $2,008,000,000, and the effective reduction in the principal of the debt is 50 per cent.

Thus the four biggest debts due to our government have been settled, actually or tentatively, in four entirely different ways, and with entirely dissimilar results. If we now include the nine other settlements made during the past three years,[51] the results of the thirteen settlements taken together are as follows.

Including the unratified agreement with France, the total principal of the debts as funded is $11,500,000,000;

[51] Finland, 1923; Hungary, 1924; Lithuania, 1924; Poland, 1924; Latvia, 1925; Czechoslovakia, 1925; Estonia, 1925; Rumania, 1925; Jugo-Slavia, 1926. All are under $200,000,000 apiece. Their total is $438,000,000.

and the total of the payments we are to receive over the next sixty years, taking interest and amortization together, is roughly $22,000,000,000. Eleven and a half billions is substantially equal to the principal of the debts as originally contracted, plus accumulated interest [52] to the date of settlement. But it is only the *nominal* principal. The interest payments are so cut down, and the period of repayment is so lengthened, that the effective or *real* principal, calculated on a business basis, is very much smaller than this nominal principal. We are paying 4¼ per cent on the bulk of our own national debt, with provision for its retirement over the next thirty years. On the basis of an interest rate of 4¼ per cent, with retirements running over *sixty-two* years, the "present" or "cash" value of the scheduled debt payments to our government is not $11,500,000,000 at all, but a little under $7,000,000,000. That is, the effective or real principal is only 60 per cent of the nominal funded principal. The average reduction has therefore amounted to 40 per cent. Roughly speaking, our government is paying 4¼ per cent on the bulk of the money it borrowed, while it is receiving only 2.55 per cent on the money it loaned to foreign countries. It is therefore quite wrong to say that we have been ungenerous to our debtors. Relative to the original legal status of the debts, and disregarding the broader moral questions involved, we have shown a very pronounced degree of generosity.

But the reductions are extraordinarily uneven. Although the reduction on the debts as a whole amounts to 40 per cent, in respect to particular countries it ranges all the way from 74 per cent in the case of Italy to only 18 per cent in the case of Great Britain. These extreme differences are justified by the Debt Funding Commission on the basis of asserted differences in the capacity to pay of the various debtor countries. But without wishing to impugn in any way the efforts or the purposes of the

[52] Charged variously at 3½ per cent to 4¼ per cent.

Debt Commission, we cannot help regarding it as at least curious that the application of the principle of capacity to pay should have produced such widely divergent results. This divergence is the more difficult to understand when we recall that Great Britain, which receives the smallest reduction of all—only 18 per cent—borrowed from us only in order to relend the proceeds to the continental Allies.[53] It is hard to refrain from concluding that the so-called principle of "capacity to pay" was, within considerable limits, little more than a cloak for polite and perhaps half-conscious bargaining of a familiar order.

By way of contrast to the action of the United States on the debt settlement question, it is interesting to look at the position of England, the other net creditor in the inter-governmental account. The three big debts due to England are those owed by Russia, France and Italy. The Russian debt, of $3,000,000,000, is probably not recoverable, and must be written off the books. In the case of France and Italy, settlements were made during the first part of 1926. The nominal total of the French debt is a little under $3,000,000,000, but the "present" value of the payments now scheduled is only about 45 per cent of that sum. The nominal total of the Italian debt is about $2,700,000,000, but the present value of the scheduled payments is only about 20 per cent of that sum. Great Britain has thus made reductions, on the two big recoverable debts due her, of 55 and 80 per cent respectively. The average reduction is 67 per cent; whereas the average reduction granted by the United States is only 40 per cent. Moreover, England is substantially pledged by the Balfour note not to seek from her debtors of all classes, whether on interallied account or from reparations, more than will suffice to pay off her sole creditor—the United States. In a word, England cannot gain from the debt situation, and will probably lose.

[53] So Lord Balfour in the "Balfour note," August 1, 1922. (Bankers Trust Company, *The Inter-Ally Debts.* p. 195.)

Such, then, has been the debt settlement policy of the American government: namely, a policy of reduction in accordance with the estimated capacity of the debtors to make payment. Under the resulting more or less complicated agreements, we are scheduled to receive a varying but growing volume of payments from foreign governments throughout the next sixty years. How large are these payments, and how important are they to us?

The total funded principal of the debts is $11,500,000,-000. On this principal we are to receive, in the course of the next sixty years, payments totalling $22,000,000,-000, with a present value of $7,000,000,000. But the receipts are not distributed evenly from year to year. They are small at first, then rise sharply for a time, and only reach a maximum in 1983. During 1927, the total scheduled receipts will be only $210,000,000, and they remain under $220,000,000 a year through 1930. Then they rise sharply through the following decade, and reach $350,000,000 a year in 1940. After that the rise is very gradual; and the maximum annual receipt, of $422,000,000, is not reached until 1983—over half a century distant. Then the payments drop rapidly, and cease entirely in 1987.

How important will these receipts be to us? It is of course impossible to predict the distant future, but a few figures will indicate the *relative* significance of the payments that are scheduled for the next four or five years.

Until 1931, to repeat, the annual payments will remain under $220,000,000. Consider first the relation of this sum to our foreign trade, which will of course be directly affected by the payments: in largest part, we can receive them only in the form of an increase in commodity imports, or as a decrease in exports, or as some combination of the two. Two hundred and twenty million dollars is, roughly, only 5 per cent of our present volume of commodity imports, and only 4½ per cent of our

present volume of commodity exports.[54] It is smaller than the annual changes which the ordinary *fluctuations* of foreign trade produce under normal conditions, and also smaller than the fluctuations of the trade balance between any two years since the war. It is less, even, than the recent annual fluctuations in merely our four principal imports, taken together, or in our three principal exports.[55]

The relation of the payments due in the next four years to American taxation.[56] These payments will make much less difference in the American tax bill than is generally supposed. They amount to less than $2 annually for every man, woman and child in the country. They amount to less than 10 per cent of the estimated yield of the federal income tax in 1927; and even if they were applied entirely to a reduction in the personal income tax rate, they would make a difference of only $2 a year to a typical income tax payer with an annual income of $5,000. The latest tabulations show that in 1924, 90 per cent of the federal income tax payers paid on net incomes of *less* than $5,000.

Finally, it is estimated that the payments for the next few years will constitute less than ⅓ of 1 per cent of our annual national income.[57]

These comparisons apply, of course, only to the immediate future; and it is true that the debt receipts will rise by nearly 60 per cent in the next fifteen years. But the other elements in our general national economy, except taxation, will also presumably grow; and will thus diminish the eventual increase in importance of the debt receipts. Even if our national income, for example, remained at only its present size until 1940, the large

[54] i. e., in 1925, the latest full year available at the time of writing.

[55] Imports: sugar, raw silk, coffee, crude rubber. Exports: raw cotton, refined oil, wheat and flour.

[56] These calculations were made by Professor R. M. Haig, of Columbia University.

[57] Taken as $75,000,000,000 to $80,000,000,000 for 1926. Estimate by Dr. W. I. King, of the National Bureau of Economic Research.

payments scheduled in that year would still be less than ½ of 1 per cent of our income.

The general conclusion which these comparisons clearly suggest is that the debt payments are not going to play a tremendously significant part one way or the other in our national economic life. Relative to the volume of our domestic production, they are little more than a drop in the bucket. Relative to foreign trade their importance is small, and even relative to public finance—itself but a fraction of the whole—their importance is not great.

But if the debt payments are of comparatively minor importance to us, the creditor, quite the opposite is true of the debtor countries. Quantitative comparisons are difficult to make intelligently in this field, but, nevertheless two or three may be ventured. First, the "real" burden of taxation of all sorts is between two and three times heavier in the principal debtor countries than it is in the United States. In England, the estimated ratio of taxation to aggregate national income in the year 1925-1926 was 24 per cent, in Italy 25, and in France nearly 30. In the United States it was only 11 per cent.[58] Second, the burden of the central-government debt, in the debtor countries, is from seven to eleven times heavier relative to national income than it is here. Finally, per capita income itself is much greater in the United States. With us the estimated per capita income in 1924-1925 was $625 a year; in England $387, in France $183, and in Italy only $71. The contrast needs no elaboration.

It is a familiar observation that a dollar is "worth" far more to a poor man than to a rich man. On this basis, and in the light of the comparisons just made, a fairly definite conclusion can be drawn, with some show of reason. It is simply this, that the debt payments will impose hardships and burdens on our debtors out of all

[58] Estimates by Professor E. R. A. Seligman, of Columbia University.

proportion to the benefits which we shall receive. We cannot remain indifferent to these hardships. Both a sense of fair play to our former Allies, and the compelling dictates of national self-interest, required that we consider the present position of the debt question with the greatest seriousness. The letters of Mr. Peabody last summer, suggestions made by others of the highest reputation, such as Professor Taussig of Harvard University, and the more recent manifesto of the Columbia University Faculty of Political Science, all show that the issue is by no means closed in the minds of the American people.

We have now reviewed most of the important facts that bear on the history of the debts due the American government. From this survey it is entirely clear, I think, that the debt settlements are far from satisfactory in character. In the first place, they have given rise to intense bitterness and dislike on the part of the debtors. This result is in itself suspicious. Nothing in the past history of the debtor countries indicates that they have ever been unwilling to recognize and pay their honest obligations. The fact that they have unanimously protested against the full payment of our claims should itself make us question very seriously the fundamental justice of those claims. In the second place, the settlements are going to produce a distribution of the war burdens so unequal, so grotesquely unreasonable, that we cannot accept the situation with an easy conscience. The day of our passive indifference to the rest of the world is gone forever.

The debt settlement policy of the American government is open to question, and perhaps to outright criticism, in two main respects. One turns on the origin of the great bulk of the debts themselves. The other turns on the unequal and discriminatory character of the successive settlements. Let us look at these two questions again for a moment.

With respect to the *legal* origin of the debts, no problem exists. Their legal status has never been questioned. They are definite and unequivocal obligations, voluntarily undertaken by the debtor governments. But their *moral* origin, their status in the eyes of fundamental justice, is quite another matter. Hardly 20 per cent of the original debts can properly be regarded as in any sense commercial in character, even including all reconstruction and relief operations under the heading "commercial." The remainder, the great bulk of the loans, were made in the vital emergency of war, to meet the life-or-death needs of our Allies. They were made to carry on a supreme military enterprise, in which *we* were one of the partners. At the time they were contracted there seems to have been little distinction, in the minds of Congress or of the nation at large, between lending the money to the Allies and giving it outright. The essential thing was to get the money raised, and to get the supplies it could purchase shipped across the ocean—where those supplies could help bring to a successful close *our own* enterprise, the defeat of the Central Powers. Is it any wonder, therefore, that the European Allies have watched with bitter incomprehension our government's apparent disregard of all these considerations, and have met with bitter protests its efforts to enforce the repayment of those sums, which are technically described as loans? We might demand, with almost equal reason, that we be paid for the lives of the American soldiers who were killed in battle. Moreover, what is almost an ironic paradox, all but a very small fraction of the proceeds of the loans were spent in this country, for American goods and American labor. They were *not* spent abroad, in foreign factories and on foreign farms. That fact does not improve our position in the eyes of the world.

The other fundamental criticism of the debt settlements rests on their unequal and discriminatory character. The extent of the differences has already been

pointed out. To Italy we have granted an effective reduction in the debt of 74 per cent, to France 50 per cent. To war-flooded Belgium we granted only 46 per cent, and to Great Britain a bare 18 per cent. These extreme divergences have been justified on the basis of asserted differences in the capacity to pay of the debtors. But, without in the least impugning the honesty of purpose of our Debt Commission, the extraordinary size of the divergences must inevitably give rise to grave doubts as to the soundness of the methods which have produced them. Second, the meaning of the term "capacity to pay" is itself ambiguous. We can perhaps speak, with at least limited assurance, of a nation's capacity to pay in the present or in the immediate future; but with respect to a term as long as sixty-two years, neither the idea nor the results its application has produced can have an intelligible significance. Think back over the phenomenal economic and political changes which the world has witnessed in the past half century, and you will see how dubious must be the attempt to predict capacity to pay over the coming half century, how inequitable its results. Within considerable limits, the use of the principle can be little more than a disguised form of bargaining, not a scientific method for determining a just course of action. Third, referring the settlements to the debtors' supposed capacity to pay implies an analogy to the bankruptcy proceedings of private law. This analogy is entirely erroneous. As we have already seen, the great majority of the debts are not on the same moral footing as the debts of commerce, and cannot be treated justly on that footing.

Finally, although this is perhaps not so fundamental a criticism, to carry out the settlements as they now stand will impose burdens and hardships on the debtors which are out of all proportion to any benefit which we may expect to receive ourselves. Indeed, it is not at all clear that on balance we shall benefit at all from the payments.

Our Treasury will benefit, of course, and our taxation will be lightened a little. But we shall have to receive the payments primarily in the form of commodities, either as an increase in our imports, or as a decrease in our exports, or both. In each event, certain American industries and enterprises that are related directly or indirectly to foreign trade will be hit, and may be hit hard. Their suffering may well exceed any gain from that small, widely diffused reduction in the American tax bill, which the receipt of the debt payments will make possible.

In summary, then, our debt settlement policy has brought us a lamentable harvest of thorns. We have lost prestige abroad, we may well have secured for sixty-two years the cumulating dislike and suspicion of our former Allies, and we have aggravated immensely that international ill-feeling, which Locarno has been doing so much to terminate forever. In view of all this, it is not unreasonable to suggest that before long a reconsideration of the whole debt question will be forced upon us. It will be forced upon us by our own consciences, by ourselves as citizens of the world. If grave injustice is being done, if we are the source of that injustice, we cannot remain tranquil in our present isolation and indifference. When world events have developed a little farther, it will almost surely become necessary to pool once more the debt problems of the entire world, perhaps including reparations, and to recast the present agreements along new lines.

Speaking with all the diffidence of a private citizen, I should like to see the following steps taken: First, arbitration to separate the commercial from the non-commercial portion of Europe's debts to us. Second, cancellation of the non-commercial or military debt to us, on condition that the other creditors in the interallied account take similar steps with respect to the debts owed to them. Third, a reconsideration of the distribution and perhaps the totals of the reparations charges on Germany, in the

light of those shifts in the financial position of the Allies which cancellation of the political debts would produce. I have in mind here, especially, the peculiar position of Great Britain.

Such measures as these will relieve the world's trade and finance of their present severe burdens; and they will promote international peace and friendship, political as well as economic and financial. But the time is not ripe for action now, and perhaps will not be for two or three years. Europe itself is not yet sufficiently stable in all respects; and the American Congress, with whom lies the ultimate power of determination, is still far from ready for any such step. But there is hope for the future, and good ground for believing that the counsels of international justice will prevail.

INTER-ALLIED DEBTS [59]

Much of the discussion of the so-called debt settlements, between the United States and the European countries with which we were associated in the war, has been neither frank nor intelligent. The public generally have been misinformed as to the character of the debts and as to the character and economic consequences of the settlements. Just how all this came about it is not difficult to see. At the Versailles Conference, Mr. Lloyd George and M. Clemenceau were both shackled by promises they had made to their people to make a defeated Germany pay the whole cost of the war. When these costs were totaled, they exceeded the entire value of all the real and personal property in Germany and it became evident that some formula would have to be adopted which would get by politically with people rendered desperate by their losses, and inflamed with impossible expectations in moments of political exigency.

[59] By Newton D. Baker, formerly Secretary of War. *Trade Winds*. September, 1926.

Experts were thereupon asked to determine how much Germany could possibly pay and the reparations payments provided by the treaty were left open at the maximum end, so that whenever it was discovered that Germany had developed an unexpected capacity to pay more, it could be demanded of her. The passionate emotions of the moment prevented clear thinking, though it ought to have been obvious even then that economic disorder and political insecurity were the necessary results of the attempt to impose so impossible a burden upon the Germans.

The Dawes plan was an effort made by Americans with the entire, but covert, approval of our government to render Germany's burden certain and bearable, not so much out of any tenderness for Germany but rather to prevent the political and economic disintegration of Europe, which was already threatened and the consequences of which it was easy to see would be disastrous to us. But the Dawes plan was made upon a fresh attempt to estimate Germany's capacity to pay. It did genuinely relieve some of the burden imposed by the Treaty of Versailles but already the weight of the arrangements made by it are bearing Germany down. Unemployment in Germany has risen to a million and a half workers. The German public authorities are beginning to announce that they will be unable to meet the Dawes payments and the expectations of those nations, to which the payments were to be made, are fading. The consequence of all this in Europe is a long and tragic story of which no man can yet foresee the end, either to Germany or to the rest of the world. Only one thing seems quite certain about it and that is that the generation in Germany which did not cause the war will not mortgage itself and its children for two-thirds of a century on any such basis as was proposed either in the Treaty of Versailles or in the revised Dawes plan, and that if Germany could pay the reparations, or the Allies could pay us, the debtor would, in

either case, swamp the creditor and prostrate its industry, since all such payments must be in products and cannot be in gold.

Having witnessed a fallacious and disastrous method of dealing with our defeated enemies, the United States has proceeded to apply the same method to her Allies.

The war being over and her army safely back on her own shores, it became the fashion to dispraise all foreigners. Our politicians began to make faces at European nations, to refer to them as a sad lot at best, and to proclaim isolation from such grasping and unworthy associates as the only safety for America, until it became the common belief that every nation in Europe spent the major part of its time devising artifices and stratagems by which it could get something more out of us. This state of the public mind having been created, we approached the problem of the settlement of interallied debts, shackled as Mr. Lloyd George and M. Clemenceau were at Versailles, by our own unwise and unsound propaganda. Accordingly there was nothing for our debt settlers to do but try to get dollars for us and to point to the number of dollars they got as the proof and the measure of American ingenuity in protecting itself against European craft. Accordingly the same old process was resorted to. Groups of economists and statisticians gravely studied, as to each debtor country, its "capacity to pay," and proposals for debt settlements seem to have been largely determined by amounts thought possible of collection without causing revolutions in the paying countries.

The first of these settlements was with the British and, instead of being a magnificent achievement, it is a magnificent disaster. It set a precedent impossible to follow with regard to any other country, since none of our other debtors are even remotely able to settle on such terms. We are obliged, therefore, to discriminate and in order not to make the case against our treatment of Eng-

land too awkward, we must appear hardhearted and exacting of everybody else. More than this, England is our friend. Proud and powerful as we are, her policy and her friendship have protected us during the long years of our experiment in democracy from the days when her statesmen welcomed the birth of our independence in the halls of her parliament, through the establishment of the Monroe Doctrine and down to the time when, in Manila Bay, her battleships stood cleared for action between us and the German fleet which was ready to prevent Dewey's success. We owe her nothing in dollars for this but it is to our interest, as a civilized people, that England should be strong enough to continue the mission which has placed her as guardian on every savage frontier throughout the world and made her weight felt in the counsels of nations for order and peace with justice in international affairs. For this reason it was bad policy for us to permit England to assume the burden involved in our settlement, and the dollars she pays will be dearly bought if they prolong by a day the recovery of England and her colonies from the sacrifies they made in the World War.

One of the favorite arguments used to justify our exaction of full payments of these war debts has been the statement that the European nations are maintaining huge military establishments and that all the money we take from them is that much saved from competitive armament. This argument is wholly unsound but even if it were sound, we have no right to make it. International security in Europe will be maintained either by force or by the moral equivalent of force. As the United States has declined to make any contribution to the moral equivalent, it has no right to question the resort to force by others. Not only have we remained absent from the counsels of the League of Nations, but we have done all we could to weaken its moral force by picturing it as a thing, to be either feared or ridiculed. In spite of the

ardent advocacy of Root, Taft, Hughes, Harding and Coolidge, it has taken us seven years to make an ungracious gesture toward adhesion to the World Court, yet the World Court is an American idea advocated by our secretaries of state for thirty years and its organization was actually devised by Elihu Root, as a brilliant American contribution to a world problem. The Locarno Treaties, which constituted the greatest advance toward the substitution of moral equivalents for force made in one hundred years, were rejected because America was unsympathetic, if not hostile. With this record, we are hardly in a position to criticise European countries for spending money to protect themselves against aggression.

The character of the interallied debts is simple. Attempts to divide them up into prearmistice and postarmistice loans, to separate out amounts which were spent in this country or elsewhere, or to divide them into classes based on the things purchased, as for instance, arms for soldiers on the one hand and food for the civil population or money for the maintenance of credit on the other, are worse than useless. They merely befuddle an otherwise plain situation. The fact is that not a penny of this money would have been lent by us or have been borrowed by any of our debtor nations but for the war. Their need for it arose out of the contributions and sacrifices made by them in the war and our willingness to supply it arose out of our belief that it was necessary in our own interest, to sustain their military efficiency until the armistice, and their economic stability after the armistice, in order to prevent a collapse which would have cost us vastly more than the money which we supplied.

The war began in 1914. We entered it April 6, 1917. When we entered it, the condition in Europe was a military stalemate, a political draw and an economic crisis of unparalleled proportions. In July, 1918, a year

and four months after we entered the war, our troops began to take an effective military part in the struggle. During that period the British, French, Italians and Belgians, wasted and devastated by the struggle from 1914, continued to hold the lines while we drilled and got ready behind them. Much of the money we supplied was for the purpose of making that possible. It took the place of our army which was not ready. So far as the actual expenditures by our debtors are concerned, each one spent more than it borrowed from us in purely military operations and it is trifling to inquire whether those expenditures were the particular dollars which they borrowed from us or some other dollars, out of their treasuries, which ours replaced.

Nor is it very important to inquire whether at the time of the making of these so-called loans, there was an expectation that they should be repaid. The question is not what did somebody think in 1917, but what is it wise to think now?

In the modern world, industrial nations are so integrated, by mutual investment and by trade relations, that political isolation is an illusion. The overseas investments of the people of the United States now aggregate perhaps $11,000,000,000 and we are investing annually overseas at the rate of a billion a year. As this goes on, our interest in world peace becomes more and more insistent. Where our treasure is there our hearts will be also. We can maintain the form of political isolation but the fact is that we are daily becoming not merely entangled, but interwoven economically into the world fabric. Our enormous wealth demands this avenue of opportunity, our industries must have access to the raw materials of the world, our producers must have a world market and these necessities are of reciprocal advantage to us and the rest of the world.

There was a time when America struggled toward a position in which it would be able to supply its home mar-

ket. It has now so developed its agricultural and industrial output that it must have a foreign market. In 1919, our imports were about $3,000,000,000, our exports something over $7,000,000,000. In 1924, our imports were $3,500,000,000 and our exports had fallen to $4,500,000,000. Two items in these gross figures illustrate the situation. In 1924, we exported $250,000,000 worth of grain and imported about $30,000,000 worth. In the same year, we exported $1,000,000,000 worth of cotton and cotton goods and imported about $150,000,000 worth. It is a fundamental economic principle that where there is a surplus production the price of that surplus determines the price for the entire product. Europe today is and long has been our best customer, consuming of our total exports more than double the amount of any other continent. In a very real sense, therefore, European buying in the world markets is a decisive factor in maintaining the price of our entire home product. Any table which analyzes and compares our exports and imports will show that every industry in America, including agriculture, depends for its prosperity upon an overseas outlet for our surplus and, of course, an overseas outlet depends upon there being people who not only want our goods, but also have money to pay for them which we can afford to take. The argument is, therefore, irresistible not only that America has an interest in general rehabilitation and the maintenance of world peace, but that our own continued prosperity requires it. Moreover, the existence of such a world market must be predicated upon good will toward us. Such advantage as may come to us by our superior productive capacity and ingenuity other nations will cheerfully see us get, in open competition which they are free to enter, but it is not conceivable that the rest of the world will continue to trade with us during sixty-two years in which everyone of them would have its own industries burdened by crushing taxes, which would be paid to us for a cause and in a form to them not greatly

different from the tribute which Rome imposed upon her friends and enemies alike. Already there are springing up in the world, economic unions and alliances against the United States which are vastly more important and significant than the emotional outbursts of street crowds in Paris against American tourists.

The wisest thing that has been said by any responsible American on the whole subject of interallied debts was said by Mr. Mellon, Secretary of the Treasury, when he appeared before the Senate committee in connection with the Italian debt settlement, to the effect that, "A prosperous Europe would be worth far more in dollars and cents to the United States than any possible returns from debts." In his speech in Philadelphia on the 24th of March, Mr. Mellon was even more direct. He said, "The farmer or the laboring man would rather have a market for our surplus in Europe than save a dollar of federal taxes." And "A business man would prefer making $100 in his business to being repaid $5 of a debt." This is all so obvious that one wonders why it ends in words until we recall the fog that has been raised to becloud straight thinking on this subject and then we realize the truth of the remark made by Anne of Austria, "God does not always pay at the end of the week but He always pays." We cannot sow the seeds of international distrust, ill will and selfishness and expect a harvest of friendship and eager trade.

Meantime, the debt settlements as made and proposed have angered and burdened to the point of despair all the nations that owe us money. Even where we have canceled a substantial part of a nation's debt, we have done it not graciously and broadmindedly in the interest of world rehabilitation, but contemptuously; not because we were generous, but because our calculations showed that we were going to the limit of the debtor's capacity to pay. In each case, the principle has been to see how much treading the worm will stand before it turns. More

than that, there appears, at least in certain quarters, a concerted effort, once the debt arrangements have been completed, to place every obstacle in the way of the debtor's ability to pay. As already stated, these debts can be paid only in goods or the proceeds from the sale of goods, and yet, to cite only one outstanding example, what a furore was raised over the fact that we have to look for our rubber supply to Britain's plantations! If it be true, as Winston Churchill stated in his recent remarks referring to the Stevenson restriction legislation, that "one of the principal means of paying the debt to America is in the provision of rubber," has not the American consumer lost his sense of humor when he rails against Great Britain's "big returns" in the face of the fact that our own warborn monopolies in goods of every nature not only brought billions of profits to America at the expense of the entire world, but were the direct cause of adding hundreds of millions to the very debts whose payments we now demand? That this attitude has not been the real purpose of either the government or of the people of the United States is true, but, unfortunately, it is the color our acts have taken and the consequence is that returning travelers tell us that never in our history has the United States been so feared or disliked abroad. At the same time here at home there is agricultural discontent and distrust and anxious scanning of skies to see whether we are industrially sound and can continue to maintain the American standard of living.

Every country in the world has had the experience of a vast and hopeless debtor class and has realized that every so often it is necessary to wipe off the slate and start afresh as in a scriptural year of Jubilee. This releases the energies of men, restores hope, cures political disorder and gives life a fresh start. The analogy applies perfectly to the present international situation. The United States needs not dollars but a confident, prosperous and peaceful world as a field for its industrial and

commercial operations. That condition cannot be brought about so long as we continue to exact payments up to the capacity of the debtors to pay.

If the foregoing observations are sound, the United States is not justified either in morals or in a long view of its own best industrial and commercial interests in adhering to its present policy with regard to the settlement of the interallied debts. The time has come when these questions, including the British settlement, ought to be re-opened.

Personally, I believe that a mutual cancellation policy will be wise. Such a policy ought to relieve England, France, Italy, Belgium and the rest of our war Allies both as to their debts to us and their debts among themselves, and in turn ought to require the release of some part of the burdens imposed upon Germany.

This should be done at a round table, where a representative of the United States should be authorized to speak with authority and to demonstrate to the rest of the world that America's interest is not in dollars but in a reconstructed international order, with as much as possible of the grief of the World War swept into oblivion, and the great industrial nations of the world freed to start afresh with harmony and good will, in fair economic competition and in at least enough political cooperation to preserve peace in the common interest.

THE DEBT SETTLEMENT [60]

I am familiar with the power you represent. I recognize it as being one of the greatest forces existing at the present time. I have studied its various manifestations at first hand. I have encountered them face to face in New York and Washington. In Wall Street,

[60] Address of M. Henry Bérenger, former French Ambassador to the United States and negotiator of the debt settlement before the American Chamber of Commerce in France. *Review of the American Chamber of Commerce in France.* 10: 336-74. June 15, 1926.

on Fifth Avenue, everywhere in New York and at the National Chamber of Commerce in Washington, I had opportunities for appreciating what American business means, what it represents. Therefore I know whom I am addressing today. I realize that you in France and in Europe are the prolongation of that tremendous power that has sprung up across the ocean. You represent, in France and in Europe, what might be called private embassies, embassies which at times excercise more influence and wield more power than the official ones.

I had come to believe that no financial stability could be obtained by France as long as her external debts had not been settled. The corner stone of all credit and of all confidence rests on the absolute knowledge of the financial situation.

I knew no budget ever could be properly balanced as long as there did not appear on one side of this budget the payments which should be applied to the external debt. Furthermore, I was aware that the value of a nation's currency is proportionate to the esteem with which that currency is regarded abroad. If our currency did not inspire confidence outside of France it could not possess any real stability. The first step toward the stabilisation of any currency must therefore be, on the one hand, a completely balanced budget, on the other the settlement of the external debt.

The problem was particularly delicate. Although this debt was to a certain extent a commercial one, since originally it had been incurred in the purchase of merchandise and loans of money, it was nevertheless exceptional in some respects. The greater part of it had been contracted in the course of a war whose final and decisive combats we had waged in common for the defense of what we considered justice and civilization. Thus there was in this debt a commercial element based

on its actual character, and also a moral element, the conditions under which it had been contracted.

It was unthinkable that the creditor should demand payment in full. It was no less impossible for the debtor to insist on complete cancellation. It was a question of conciliating the moral and material elements of the debt.

The moral issue involved is obvious from the start. Is it conceivable that the United States, our friend and associate, should insist on the execution of the severe clauses of the original terms? You probably remember what these terms were, but I will remind you of the exact figures. These were as follows: The loans made to France between 1917 and 1920 were payable at sight and bore 5 per cent interest. Was it fair for the United States to demand that France, after her effort during the war in defending herself, and her still more heroic one since the armistice in the restoration of her devastated provinces, should pay over immediately a sum amounting to $4,377,000,000 at 5 per cent interest?

Gentlemen, there can be no two answers to this question. The United States appreciates the extent of France's effort since the war, the American people understand the difficulties she has had to overcome. Moreover, the heart and mind of America, so profoundly realistic in some respects, is at the same time animated by lofty and powerful aspirations toward idealism. The heart of America is too generous, you proved your chivalrous instinct too clearly at the end of the war by your gifts of men and money, for us to imagine that the United States Treasury Department, no matter what its obligations might be toward the American taxpayers, towards the subscribers to the Liberty Loans, would exact from any European nation, and still more particularly from France, the full payment of its debt, a debt in the present instance amounting to $4,377,000,000 bearing interest at 5 per cent.

Since this attitude was out of this question, was it to be hoped that you would cancel the debt entirely? As a Frenchman, I would have been only too glad to see this solution adopted. In fact I can assure you, gentlemen, had I considered it possible I would have striven to bring it about. But why cherish false illusions? The conditions under which the debt had been contracted made this complete cancellation by the American government impossible.

It might have been otherwise. Had it been, for instance, an arrangement between the Treasury Departments of our two governments, in the form of credit facilities, instead of a bond issue which was subscribed by the American public—had this occurred, we can imagine that, in spite of political changes, the present Secretary of the Treasury might have been authorized by Congress to say: "These loans were made by the American government to further the common cause of the Allies. That government will write them off to profit and loss of the war."

This might have happened. But you know very well, as all well informed persons know, nothing of the sort occurred. Nowhere in the Treasury Building in Washington, in front of which stands the proud, young and elegant figure of Alexander Hamilton, your first Secretary of the Treasury, can be found a vault where $3,000,000,000 were stored away and from which they were taken by your Treasury Department and given to Monsieur Ribot, Monsieur Klotz, or their successors. Nothing of the sort occurred, and therein lie the financial and commercial difficulties of the present time.

In order to obtain those $3,000,000,000 which were loaned to France, the American government, the Treasury Department, called for subscriptions. To whom was their appeal addressed? To the individual members of the American nation. It was the American citizen to whom the signature of the French government

was offered as guarantee and who subscribed for short-term bonds paying 4¼ per cent interest.

The result of this situation, gentlemen, is to make it impossible to recall these bonds now distributed far and wide throughout the country among private investors. We cannot take them out of the pockets of the farmer of the middle west or of the eastern business man, or of the Kentucky mountaineer, or of the manufacturer in Seattle. These bonds, the Liberty Bonds, were not locked up in a government vault. They were scattered all over the face of the land.

Who was the American who subscribed to these bonds? He is the same person as the American tax-payer. In other words, the American voter. In order that we Frenchmen may understand this part of the problem properly, let us remember those loans made in France by foreign powers, that, bearing the signatures of our government and of the foreign powers as guarantee, they were distributed throughout France. Our peasant who bought such bonds (which might be Russian, Turkish or Roumanian) does not understand what you mean if today you say to him: "We must cancel completely the Russian debt, or the Turkish debt, or the Roumanian debt." When a bond has been sold to the public the question of its payment becomes, not simply a theoretical question, but a matter of financial necessity, because it involves a moral obligation toward the individual bond holder.

There you have the point that must be understood in order to realize why the idea of a complete cancellation, attractive as it is to a Frenchman, could not even be considered a matter for discussion by the American Treasury Department. No such suggestion ever was made either by President Wilson, President Harding or President Coolidge. To create the impression that the debt we had incurred could be canceled entirely,

now or in the future, is to deceive the French people and foster very dangerous delusions.

Unless you have truth on your side you cannot accomplish anything worth while, anything that will be permanent. You can flatter the crowd, you can stir up passion, you can humor private interests, but you cannot accomplish the purpose we have in mind, namely the uniting of nations in that better understanding and closer friendship which will insure a happier future.

I insist on and reiterate this point, gentlemen and American citizens—never at any time did any cabinet holding office in France consider the possibility of repudiating the great debt this country contracted in 1917, when we were grappling with an enemy who employed every unfair strategem, every form of brutal violence, and you came and fought beside us, contributing not only your immense financial resources but also the finest flower of your manhood.

Nor, since the armistice, has any French cabinet proposed the possibility of repudiating France's financial obligations. The various cabinets have been unanimous on this point. And I am not one of those Frenchmen who seek to make such things a party issue, to serve the interests of some particular group whose objectives and leaders change with the passing years. On the contrary, I wish to give full credit to the war and post-war cabinets who, one and all, strove to serve the best interests of France.

The cabinets in office immediately after the war made the following statement to our American and our English friends:

> You know we incurred these debts for a common cause. You know our country was the battle-field of civilization, that ten of our richest provinces were devastated, that in order to re-equip the mines, to rebuild the ruined factories, the schools, the churches, the private houses everywhere which it already cost us so many billions to defend—all this will require more billions to restore. Who will furnish these billions? Must

it be the country that was unjustly attacked as France was in 1914 or should it be the aggressor, he who had hoped by destroying our nation to destroy the entire civilization of Europe and profit by this destruction?

No, he who wrought this destruction and who suffered defeat must be the one to repair the damage he caused. Basing our claims on international treaties, we demanded and we obtained the right to ask for reparations. It was of the greatest of your compatriots, gentlemen, who himself proclaimed that the right to reparation was the corner stone of the Peace Treaty.

Hence we declared: "We will pay out the billions necessary for the reconstruction of our land and property, but we cannot at the same time begin to pay the Allies until Germany has begun to pay us." This was the reason which prompted the French cabinets in office between 1920 and 1924 to say to America and England: "Let us first undertake the task of reconstruction. Germany will pay us as soon as she can. Insist yourselves that Germany pay, and with those payments we will be able to settle our indebtedness to you." Such was the point of view of the French government until 1924.

Things seemed to have come to a deadlock. Germany, for reasons I will not discuss and which, futhermore, have nothing to do with my present subject, made no reparation payment till 1924. Indeed she went further. When an attempt was made to make her pay something she pleaded coercion. Although, to be sure, she did sign on May 5, 1921, an offer to pay 132,000,000 gold marks to the Allies (France to receive one-half of this sum) she announced that this signature was not given of her free will and that consequently she did not consider herself under any moral obligation to observe this agreement.

In 1924 a new event took place. Several prominent Americans were asked by the various European govern-

ments to form what was known as the Committee of Experts. Their task consisted in estimating Germany's capacity for payment. It was the first time this important principle, the capacity for payment, had been stated in connection with the settlements of the war debts. It was under these auspices, as you will remember, that what is known all over the world as the Dawes plan was born. It was General Dawes (who is also, we must not forget, the banker Dawes who drew it up) who attached his weighty signature to the plan of the experts.

Today Mr. Dawes has become Vice-President of the United States of America. Consequently his signature carries three times as much weight in France. Beside his name appear those of such distinguished men as Messrs. Robinson and Owen Young. These signatures constitute in our eyes the surest guarantee for the execution of the Dawes plan.

What facts are stated in this plan? The statement that Germany's capacity to pay having been investigated by experts, she should pay annually a certain sum, to be divided among the powers having participated in the great war. Note that in 1924 Germany did not protest she was being coerced, but that she accepted the Dawes plan of her own free will. This acceptance constitutes an act of complete independence which the Reich accepted and which it continues to accept without constraint. From this date onward the basis of the reparations payments had been established on a practical basis. —Each of the former Allies knew what sums would be due him during the next fifty years. Consequently the position of the French government could not remain the same as it had been up to that point.

Until 1924 the government had told America and England: "We recognize our indebtedness, but we cannot even consider the question of how payments are to be effected because Germany has taken no steps to fulfill her obligations." From 1924 on these steps have

been taken. The Dawes plan comes into effect, and consequently the debtor nations can say to their creditors: "We will pay you because we are to receive important payments from Germany."

This was the reason why, from 1924 on, the French government and other allied governments said to America and England: "Now we can consider the practical means of settling this debt." These were the real fundamental reasons for our change of attitude, and the latter must not be attributed to any sudden political fancy or a change in the political majority in our Parliament. It was the adoption of the Dawes plan that brought about the procession of representatives of the various European countries, whose bonds had been bought by American investors, coming one after another to Washington. One by one the English, the Italians, the Belgians, all the other Europeans and finally the French appeared before the American Treasury Department.

Here you may remind me that the British government did not wait for the signing of the Dawes plan before settling its particular debt. It was in 1923, and not in 1924, that Mr. Baldwin, then Chancellor of the Exchequer, crossed the Atlantic and went to Washington to negotiate the settlement of the British debt. This is true, gentlemen, and it was a serious act which split the unity of the common cause of the European Allies in the face of the American creditor.

Great Britain, the United Kingdom, was within her rights in thinking that single-handed she could settle her debts toward her American cousins without entering into any association with the continental peoples. Mr. Baldwin's action eliminated once and for all the possibility of any complete cancellation of the debt. As long as one of the great European powers appeared alone before the American tribunal, made an agreement and undertook to execute it, no majority in Congress, either

in the House of Representatives or in the Senate, would even consider any complete cancellation.

England had something definite to gain by settling her war debts as soon as possible. She was anxious to bring her currency back to the gold standard immediately.

She considered that as long as the pound was not at par with the dollar, she risked losing what she considered one of the greatest elements of her power, namely the currency control of her colonies and a great part of the world. This was why Mr. Baldwin, with that vigor and directness which characterizes him, as it characterizes the British race as a whole, undertook to settle his nation's debt at Washington, in order thereby to increase the value of England's currency and insure its definite stabilisation.

These were the reasons why France, in turn, took up in 1924 the question of settling her debt. M. Clémentel took the first initiative during the premiership of M. Herriot. Later, M. Painlevé being in office, a first French mission, of which I was a member, headed by my distinguished friend M. Joseph Caillaux, Minister of Finance, and including the most distinguished members of the two houses of the French Parliament, was sent to Washington in September, 1925. The mission earnestly desired to reach an understanding with the American people. It is unquestionable that on this occasion, when we crossed the ocean to meet face to face for the first time the representatives of your government and your Congress, we laid the firm foundations of the agreement which I, a former member of this mission, later on signed. By doing so I did not separate myself from what already had been done, but completed what had been begun a few months earlier.

The first mission laid down the following essential points: There were two distinct parts to the debt. The

one was a strictly commercial transaction involving payment of $400,000,000 for material bought after the war. It had been agreed this debt should be paid ten years after the date of the purchase, and it bore interest at the rate of $20,000,000 per annum, without amortization.

I had not signed this agreement. I am not in a position to discuss it. The signature of France had been affixed to it and, affixed under non-military conditions, it was a purely commercial matter and had always been regarded as such, as shown by the fact that annually France had paid over the $20,000,000 regularly, because our nation never intends to revoke or repudiate any document bearing her business signature.

The principal of this debt for merchandise was to mature on August 1, 1929. Well, gentlemen, the years pass quickly. We were then in 1925, in other words, only a few years separated us from this settlement day. If, at the time the contract was made in 1919, it had been stipulated that the dollar was to have the same value on the date of settlement as when the contract was made, the situation would have been less serious. When the contract was signed the dollar had less than twice its pre-war value, but when we came to examine the debt it stood at five times, or rather at between four and five times, its pre-war value. At what figure would it be quoted in 1929? No one can yet say.

Today these $407,000,000, if we take the current value of our currency, represent more than 12,000,000,000 francs—in other words, a third of the entire French budget, which amounts approximately to 36,000,000,000. How can anyone think for a moment that France can stabilize her finances if she has looming up, in front of her, only three years ahead and in addition to her political debt, a sum of $407,000,000 to be paid immediately to the United States as a business transaction?

It was quite out of the question. It implied that,

since an overwhelming weight crushed France's finances, that nation never would be able to lighten the burden.

This was what our envoys in September, 1925, realized perfectly, and their task was to ask America, as represented by Mr. Mellon and the War Debt Funding Commission, to incorporate the debt due for the merchandise bought after the armistice with the debt as a whole.

Here then we have the first principle governing the settlement of the problem. The second principle was that France could not be expected to pay a sum in excess of her capacity of payment. This third principle was that the sums to be paid by France should be proportionate to those she was to receive from her foreign debtors and specially under the Dawes plan. These were the three essential principles discussed in 1925.

No agreement was reached at that time, but negotiations were not broken off. The French government, through its spokesman, M. Caillaux, offered to pay $40,000,000 annually at first, increasing later the sum to $100,000,000 over a period of sixty-eight years. The American government made the following proposition: "We suggest you pay us $40,000,000 a year for the first five years and afterwards we will reconsider the entire situation."

This was not a proposition we could accept. Not a member of the mission considered accepting it in September, 1925. How could we do so when the very object of our negotiations was to stabilize our currency, to restore our credit in the United States, to balance our budget, and what was offered us was merely a temporary arrangement, a postponement of the final settlement, a solution which would perpetuate the misunderstanding between the taxpayers of our two countries without arriving at any definite conclusion. No, gentlemen, no member of the French Mission could consider such an

offer. That was why a friendly interruption in the negotiations took place.

I was sent to America a few weeks later to resume the negotiations. I did not modify the principles laid down by the mission of 1925. My object was to secure more favorable terms. I had to combat many prejudices in America. Campaigns were carried on there attempting to show that the French peasant, the French workman, the Frenchman in general did not pay enough taxes. You, gentlemen, Americans living in France, you know what the taxes are here, and I appeal to your good faith to deny that these statements are founded on fact. The French pay higher taxes than Americans. I proved it in the memorandum requested by your Treasury Department. The American taxpayer pays half what the French taxpayer does.

The latter pays more than the Englishman, than the Italian or the German.

You have this fact brought home to you, gentlemen, every time the question of applying our tax rates to Americans living in France is suggested. You protest against such a step, and you are justified in your portest. The Frenchman is crushed under the burden of his taxes, and I proved this before the American Commission. It was thanks to this proof, recorded in English in a memorandum drawn up in response to the request of your Treasury Department and known as the Memorandum of French Capacity to Pay, that I was able to obtain from the American Commission and the Treasury Department a reduction of 60 per cent of the debt and the suppression of the $400,000,000 due in 1929.

At the same time we reduced the rate of interest on the total amount of our debt from 5 to 2 per cent and we established a scale of payments proportionate to France's capacity to pay. I obtained this reduction without diminishing in the least France's prestige, without

claiming that she was worn out and discouraged after the years of conflict. Always I showed her as she is, proud of the redemption of the two rich, prolific, fertile provinces, Alsace and Lorraine, proud of her colonies and resolved that no scrap of soil over which floats our flag ever shall be separated from the mother-nation.

I proved my case before the American Commission in Washington. I repeated my statements before the élite of the financial and commercial aristocracy of New York at the Waldorf-Astoria. I told this audience how we had continued to develop our colonies during the war. Your ambassador, just back from Morocco, can tell you what we have done there, how we have completed the task undertaken by France four centuries ago, how we have proved ourselves worthy of our predecessors and how, from the time of Louis XIV to the days of the French Republic, there extends unbroken a chain of heroism. . .

I said all this. I did not conceal any of the resources of my great country. Indeed, I should have proved myself an unworthy ambassador had I not known how to convey to the Americans an idea of the inherent strength and vitality to be found in the French people.

But, gentlemen, I asked the War Debts Funding Commission to reduce the annuities to be paid during the first few years. The debtor wishes to pay, he obtains a reduction of 60 per cent of the total indebtedness, a reduction of three-fifths of the interest, but he still wants more. We wish the first payments not to be too heavy if we are to complete the restoration of our devastated regions—that task we undertook single-handed on account of Germany's failure to meet her obligations. My request was granted. It was agreed that the first annuities should be much lighter than what originally had been suggested, in spite of the fact that it was very difficult for the War Debts Commission and

for your Treasury Department to reduce the figures accepted by the French Mission in September.

I succeeded in reducing the amount of the annuities from $40,000,000 to $30,000,000 with an additional clause to the effect that the first payments need not exceed the $20,000,000 we already are paying. As a matter of fact, France is entirely at liberty, at any time up to June 15, 1930, to pay America only $20,000,000 annually —in other words, the same sum she already is paying that country.

Why is this, gentlemen? It is thanks to a commercial mechanism, with which all debtors and creditors are familiar. I asked for and obtained an arrangement by which, at intervals of three years, France can carry forward all sums superior to what she already is paying, namely $20,000,000 and only pay them at the end of those three years. Since this process can be carried out annually, these successive carryings-forward make her liable only to pay the excess on $20,000,000 due every two years.

I succeeded in arranging that the books in 1926 be closed and that the first payment take place on June 15, 1927. On that date therefore the first sum of $30,-000,000 falls due. Of these $30,000,000, ten can be carried forward to 1930, the one in 1928 can be carried forward to 1931, and that of 1929 to 1932.

However, an important event will take place on September 1, 1928, in other words nearly two years before the date of the first payment in 1930. The first important annuity to be paid under the Dawes plan falls due on September 1, 1928. A payment which will bring the Allies as a whole the sum of $650,000,000. Of this amount France, by the Spa agreement, should receive $300,000,000.

Again on July 1, 1929, she will receive another $300, 000,000 and on July 1, 1930, another $300,000,000. This if I am not mistaken, adds up to $900,000,000.

Hence if the payments under the Dawes plan are made regularly France will receive in cash very large sums from Germany, these sums allowing her to pay the United States and Great Britain. Here you have the coordination between the Dawes plan and the agreement which I signed on behalf of my government. As long as the Dawes plan functions normally, France receives annually, from 1928 on, payments of $300,000,000, and all payments she has to make in excess of the sum of $20,000,000 can be carried forward till after 1930. Consequently, when Germany has paid, France will be able to pay.

This is the system on which France's payments to her creditors is founded. This arrangement furnishes the necessary guarantees, for, if international agreements are sacred, this sanctity is binding not on one nation, or on two nations, or on three nations, but on all nations alike.

This was the agreement the two governments finally established. I am convinced it will ensure a better understanding, more amicable relations between our two countries. Furthermore, my country, France, who has suffered so deeply, who has fought so valiantly, whose blood insured the victory of all the Allies, in spite of the tremendous effort she has to make to repair the destruction of her territory, a destruction comparable to that of the Barbarian invasions, the France that liberated her lost provinces, rebuilt her factories, reconstructed all her commercial and industrial system—in spite of all this has cost in taxes and money, I am convinced that France who, in one of the darkest hours of our history, after that other war which, unlike this one, had not been a victory of the right but, on the contrary, an eclipse of the sun of civilization—the nation which even under such conditions by the pen of her Thiers and Pouyer-Quertier was able to maintain her credit in the eyes of the world—I am convinced, I repeat, that France, so pure and noble, will not allow her currency, her finan-

cial system to be discredited by refusing to sign an honorable and just agreement, an agreement capable of reviving between the great American democracy and the democracy of France those commercial relations based on mutual confidence and esteem which are indispensable to their expansion.

THE INTERNATIONAL DEBT QUESTION [61]

. . . And now to come more generally to the interallied debts. Let me state one or two obvious facts with reference to them. In the first place, they are good debts. They are debts that ought to be recognized. The arguments to the contrary have never appealed to me. There are many arguments that can be raised with reference to our treatment of the debts when once recognized, but it seems to me a great mistake for people abroad in the countries which owe these debts or for people here to undertake by some specious way and with far-fetched arguments to prove that these are not real debts. People have spoken, for instance, of the fact that the money was used over here, and that exorbitant profits were made out of it, and have argued that therefore the debts in their entirety were not good. I cast that argument aside. In the next place, people almost always, in talking about the interallied debts, devote themselves to France. This comes about, perhaps, because the French debt is the most conspicuous case of debt not yet settled; but we ought always to remember that other countries are in exactly the same position. It is not France alone which is not paying its debt, but Italy

[61] From an address by Roland W. Boyden, formerly Unofficial Observer of the United States on the Reparations Commission. *Annals of the American Academy of Political and Social Science.* 120: 36-40. July, 1925.

and Belgium are in exactly the same category. No one has heard any suggestions from these countries with respect to the payment of their debts. Why do we always talk about France?

And next, in speaking of the French debt, it is very important that we should bear in mind that we are not the only country which France owes. France owes England as well as ourselves. The total of the French debt is not approximately $3,000,000,000, about which Senator Borah speaks; it is approximately $7,000,000,000, not including interest, and the question whether France can or should pay us is intimately bound up with the question whether France can or should pay England. The two debts should be dealt with together, and in my judgment English representatives as well as our own should meet France across the common table and discuss these matters upon that basis. . .

In the discussion of these interallied debts we must keep our eyes constantly on that question of exchange. We are too apt to discuss these questions on the theory that a national debt is practically analogous to the debt of an individual. An individual, if he has so much in the way of assets and half as much in the way of debts, can pay his debts. And so we think of a country, so much in the way of assets, so much in the way of annual income—enough to pay the debt—and say of course they can pay the debt. You will find that form of statement in Senator Borah's speech. He speaks of France as a rich country, which it is. But he utterly ignores the difference in the average incomes in France and in this country in connection with his comparison of taxation, and utterly ignores this question of the difference between payment of a debt by an individual and payment of a debt by a nation.

A nation has two distinct difficulties to surmount, to say nothing of others. First, the fact that its property is in such shape that it cannot readily dispose of it for

the benefit of its creditors, and second, this terrible problem of the transfer of domestic payments into foreign currencies. That last is the main point, and no question of debt, whether it is the debt of Italy or of Belgium or France to us, ought to be discussed, without extreme emphasis being laid on the question how—whatever our demand may be—how that demand is going to affect our exchange relations with that country. In other words, you can put the question of payment of the French debt just this way: How much would the payment of $50,000,000 by France to us affect French exchange? How much would the payment of one hundred million dollars by France to us affect French exchange? You have first to estimate what the effect of the payment would be, and then ask yourself whether for the sake of getting your money you are willing to put on France all the dreadful results of a fall in exchange. People here in America live with the dollar. It is like the air they breathe. Yet they do not think of what would happen to them and their friends and their savings banks and their insurance companies if that dollar went down, down, down as we have seen money go down in those countries abroad.

People speak sometimes of the great advantage which Germany has obtained by the cancellation of all her domestic debts. If that is such a wonderful boon, such a great advantage to a country, why don't we cancel our domestic debts? Why don't we fix things so that tomorrow all our United States government bonds shall be worth nothing? It is the height of absurdity. When you go through a process like that you go through a cataclysm, and it means suffering, disaster, to the large majority of the people in the country. And in a lesser way, in the case of France, the effect, the bad effect, which payments to us might have on French exchange must be considered, because that is what it comes down to. In my judgment, you could not get a payment of

$50,000,000 yearly from France without affecting French exchange seriously. If you went up to $100,000,000 it would not surprise me if French exchange went to one hundred to the dollar, maybe more.

I have spoken of Mr. Borah's speech. All his remarks on this subject, it seems to me, are most superficial. What he says about the comparison of taxes—those who have heard that question discussed by competent experts know that he has not gone a quarter of an inch below the surface of the subject. He speaks of the wealth of France. France is wealthy, economically prosperous, but when you think of its finances and what it has gone through you know that its exchange is in the most critical state; you know that almost anything would start that exchange as it was started a little over a year ago on the downward path that leads to all these difficulties. You may think that France ought to pay more taxes; you may think that she has borrowed too much; but you want, whenever you think of that, to consider what the obligation of the whole of France was to the devastated regions. You ought to remember that in the middle of the war the country pledged itself to those devastated regions, and that it has kept that pledge. And you ought to remember how difficult it is, after all the suffering and loss that there has been in France, to increase taxes in the way that drastic finance might have increased them. You may think that France ought not to have so large an army. Personally I do not agree with that point of view. In my judgment France needs a large army to insure her own safety, to insure the peace of Europe. I may think that sometimes she uses that army as I would not like to see it used but nevertheless I have got sense enough to know that there is no chance of France using any common sense in her political relations unless she has an army large enough to make her feel safe.

Mr. Borah omits all consideration of the French debt to England. He lays great stress on the sacredness of

international obligations. I agree with the sacredness of international obligations, but the sacredness of international obligations never goes to the extent of compelling anybody to pay anything that he cannot pay. The sacredness of international obligations involves merely the recognition of the debt and the doing of what can be done to meet it. It does not necessarily involve full payment of the debt, and the same man who talks so much of the sacredness of international obligations is perfectly agreeable to the settlement with England which, of course, was in essence a cancellation of so much of the English debt. He is perfectly prepared for moratoria, reductions of interest, one thing or another, anything so long as you do not call it cancellation. The real point is: What can these countries pay? What can they pay without exposing themselves to financial dangers to which we would not be willing to expose them even for the sake of our getting our money? . . .

We ought to apply the Dawes plan to our own claims against all these countries. It ought to be possible for statesmen of the United States to meet French statesmen and discuss the possibilities of France along those lines. But what have we done? We have appointed a Debt Commission, and we have tied them hand and foot so that they do not dare to take any responsibility in this matter. They took their lives in their hands when they made that arrangement with England, and went back to Congress with it. Is that any way to deal with a subject like this which depends on economic and financial principles?

And after you apply the principle of the Dawes plan to the French debt, you still have left for consideration those principles which I have referred to before. Some people call them sentimental—I prefer to call them moral. These moral and sentimental considerations apply after we get by the application of cold-blooded business principles, for if we apply the Dawes plan principle

to our claim against France we should be doing exactly what we have asked France to do in the case of Germany. It seems to me that the United States ought to be prepared, and I know is prepared, to go further than that with France, our friend and our Ally, whose sufferings we have shared in a small measure, whose courage we have admired in connection with the contest itself, and whose courage and devoted effort we have admired in connection with the reconstruction which has followed the war. We talked a great deal about Lafayette during the war, but I think Lafayette was really only a symbol of this admiration of ours for France and of our desire to be at her side. And France still has our sympathy and admiration. You remember Pershing's eloquent speech when at the tomb of Lafayette he said, "Lafayette, we are here!" Do we want to see our Debt Commission at the tomb of Lafayette, saying, "Lafayette, again we are here, but this time what we want is money!"

THE PROBLEMS INVOLVED IN THE SETTLEMENT OF INTERNATIONAL OBLIGATIONS [62]

There are few, if any, subjects of greater interest and importance today than that of "The effect of the debt situation upon Europe's relations with the United States." The size of the debts, the conditions under which they were contracted, and the extent to which trade and commerce must respond if the settlements are to be carried out, raise questions of the greatest importance. The political and economic factors that are involved are of such a nature as to have a considerable bearing upon international understanding and good will and upon the economic life and welfare of the peoples and nations concerned. There are not only the questions to be con-

[62] By Norman H. Davis, former Under Secretary of State. *Annals of the American Academy of Political and Social Science.* 126: 34-7. July, 1926.

sidered as to whether the settlements arrived at can and should be carried out, but also as to what effect the fulfillment or non-fulfillment of those agreements will have upon the political relationships and the economic structure of the debtor and creditor nations. The ability and the willingness of the debtor nations to pay, and the desire of the United States to be paid, and her willingness to do what is necessary to facilitate payment, are matters that must be considered.

The funds required to make the payments called for must in the last analysis be obtained by the debtor nations from the sale of their goods and services in excess of the goods and services they take from others. If, therefore, such payments are to be facilitated and effected, the governments that are to make and to receive payments must adopt policies that accommodate themselves to economic laws and to such a flow of international trade and commerce as will result in the creation of the funds necessary to be transferred in payment.

The same elements, or factors, that enter into the payment of allied debts exist in the payment of German reparations. I happened to be a member of the Reparations Commission at the Paris Peace Conference. Reparations was then a comparatively new subject to me, and to the other members of the commission. It raised questions of such a magnitude that there were few, if any, adequate precedents to guide us in seeking a solution. It had been many years since the nations had had any experience with regard to the imposition and collection of huge indemnities, and there were two schools of thought at the Peace Conference with regard to what could or should be done. One group believed there was no limit to what Germany could pay through increased production and decreased consumption, and frowned upon any suggestion that Germany's ability to pay must also be measured by the willingness and the ability of the allied powers to take enough German goods and services to

receive payment. There were others who forsaw the limitations imposed by economic laws, as well as by the fiscal and foreign policies that the respective nations might adopt. . .

We were, therefore, unable to agree upon the fixation of a definite sum and consequently had to compromise by agreeing to set up a machine, known as the Reparations Commission, which should from time to time regulate the demands made upon Germany in accordance with her sincere efforts and her ability to meet them. While it was then impossible to get much consideration of the other side of the problem, namely, the willingness and the ability of the allied powers to take sufficient German goods and services to make it possible to receive the payments they desired—this necessarily became a determining factor. One hundred billion dollars was the sum talked of at the beginning as to what Germany could and should pay, but I, for one, was unwilling to be a party to the perpetration of such a historic joke as to make a demand for the payment of an indemnity of that size.

As you are aware, reparations has since then been going through repeated processes marked by progressive steps leading to more enlightenment. The Reparations Commission was not able to accomplish what it was supposed to do, and that was largely due to the fact that the United States did not ratify the Treaty of Versailles and designate an official member of the Reparations Commission. The compromise that was made and that provided for setting up the Reparations Commission was based upon the understanding that the United States, which had no important interest in collecting reparations, should in effect be the arbiter, or judge, as to what demands should from time to time be made upon Germany, and the Treaty accordingly provided that upon the most important questions the Reparations Commission must act by unanimous vote. The American delegates at the Peace Conference felt that so long as the Allies

confined their demands upon Germany to what Germany could pay, it was not an affair of ours. We felt, however, that it would become a matter of concern to us if attempts were made to collect in excess of Germany's capacity to pay and the capacity of the outside world to receive payment, because that would result in a serious disturbance of political and economic conditions which would affect us adversely.

Since the United States failed to ratify the Treaty of Versailles and to appoint an official member on the Reparations Commission, our official voice and mediating influence could not be directed towards the working out of the plan as contemplated. Controversies arose that menaced the political relationships particularly between France and Germany, and the situation became so threatening that the Dawes Commission was finally appointed to find a solution, and this commission succeeded in working out a most admirable plan.

While the settlement arrived at under the Dawes plan may not be definitive, it removed some of the chief obstacles to a constructive working out of the problem in the future. The chief merit of the plan is that it establishes an index that makes it possible to determine the extent to which Germany may produce goods and services in excess of her home requirements, and the extent to which the creditor nations are willing and able to take Germany's goods and services in payment of the installments provided for under the plan. In other words, if German production is sufficient to produce sufficient German currency to meet her requirements under the plan and it is impossible to convert this currency into gold, or foreign currencies, to make the foreign payments required, without breaking German exchange, then it is apparent that the outside world is unwilling, or unable to take goods and services from Germany to the extent necessary to meet such payments, and that demands for payment must be regulated accordingly.

We are, in my opinion, going through a somewhat similar process in an effort to get at the facts and a solution of the inter-governmental debts. . .

The people of Europe have a feeling that we should forgive those debts. The people of the United States evidently feel, at least in so far as their views are represented by Congress, that there is no reason why the Allied Powers should not pay to the extent of their ability to do so. My understanding is that the settlements arrived at have been based primarily upon estimates of the capacity of the Allies to pay, and that little consideration has been given to the ability, or the willingness, of the United States to take sufficient goods and services from abroad to permit the transfer of the funds necessary to receive payment.

Assuming that the Allies can and should pay, in accordance with their agreements, it will be very difficult, if not impossible, for them to do so unless they are at peace and at work, and unless the United States acts as an intelligent creditor and facilitates the importation of sufficient goods to permit the transfer of the funds required to make the payments. It does seem rather absurd, however, for us to be talking so much about what European governments can pay us when our bankers and investors are advancing to them, or investing in Europe, so much more than they are paying to us. Instead of taking their goods in payment, we have, during the last five years, actually sent to Europe about $9,000,000,000 or $10,000,000,000 through the purchase of foreign securities, or practically twice as much as the capital sum due our government as represented by the recent settlements. The huge sums that we have thus sent abroad have been used for restoring the economic life of the debtor nations and for paying for their purchases from us. To a very small extent the sums thus received from our investors have been used to apply on their indebtedness to our government. The funds received by

Europe from private American investors have simply increased the amount of goods and services that we must ultimately take from abroad in payment of what is due our government and our private investors.

Aside from the economic problems that exist and the economic readjustments that must be made, there are difficult and delicate political questions to be taken into account. Our government has acted on the theory that it is most important to maintain international credit, and that, while reductions may be made in the interest to be collected, there should not be a cancellation of the capital sum due to us. In making reductions in the rate of interest we have in effect canceled something like 50 per cent of the debts due to us, but we are not getting the credit from our debtors for having made such liberal reductions because we are trying to give the impression at home that we are not canceling anything. We are, therefore, held up as the Shylock of the world and are incurring the ill will of those to whom we have endeavored to be liberal and fair. That, of course, is unfortunate, and unless steps are taken to do so, it is not likely that this ill will will diminish during the sixty-two years in which the foreign governments are to be making payments to us. One dangerous aspect of the question is that the ministers of finance in the countries indebted to us are inclined to tell their people that their taxes cannot be reduced because they have to pay the United States, and in the United States there is apt to be, as there has recently been, a tendency on the part of the administration in power to mislead the American people and promise them further tax reductions in years to come from what will be collected from the foreign governments under the wise debt settlements that have been made.

I myself believe that it is important to maintain international credit, and that the United States has every right to collect those debts to the extent that our debtors can pay, and to the extent that we may desire to receive pay-

ment. On the other hand, I would like to see a meeting of the minds of the people of the debtor and creditor nations that would result in settlements that are so practical and reasonable as to justify themselves. After all, these debts are not worth anything like so much as international good will and international peace and prosperity, and I am more concerned about settlements that would prevent the United States from being called upon in another war to repeat the process of financing nations with which we may be associated in war.

THE ECONOMIC VALUE OF THE MANDATED TERRITORIES IN RELATION TO INTERALLIED DEBTS [63]

There has been much loose talk concerning the value to the Allies of the former German colonies and of certain Ottoman territories allotted to the victors as mandates under the League of Nations. During the "Khaki Election" of 1918 in England supporters of a punitive peace openly boasted that the costs of the war would be defrayed by stripping Germany of her overseas possessions and by dismembering the Turkish Empire. Optimistic politicians and publicists indicated that Mesopotamia alone would repair much of the economic waste of the Great War to the British Empire. More recently, in the United States, it has been maintained that the colonial acquisitions of the Allied Powers under the terms of the Peace of Paris have been such as to deprive them of any claim to considerate treatment by the United States in the matter of the interallied debt settlements. The United States, it is argued, having possessed no territorial ambitions during the war and having received no territorial compensations from the peace

[63] By Edward Mead Earle, associate professor of history, Columbia University.

might logically enough expect full compensation from those who divided among themselves the spoils of war.[64] Advocates of a revision of the debt settlements, however, point out that the United States considered territorial acquisitions as in every sense a liability rather than an asset. Had the United States desired at Paris any share in the former German or Ottoman Empires, it doubtless could have had such a share for the asking; on the contrary, we rejected participation in the mandatory system by refusing to assume the responsibilities inherent in standing sponsor for the infant Armenian Republic. It cannot be denied, of course, that the several Allied Powers had, or imagined that they had, important interests—economic and otherwise—in the territories separated by the Peace of Paris from Germany and Turkey. An analysis of their experiences in the mandated territories, however, will demonstrate that the path of the victors has not been strewn with roses. The balance sheets indicate heavy liabilities, and the assets are not what they were anticipated to be in the enthusiasm of postarmistice days. . .

There are certain imponderables in evaluating the worth of the mandated territories. For example, there is the question of the acquisition of regions of great strategic importance. Clearly, the defence of the Suez Canal has been simplified for the British Empire by the possession of the Palestinian mandate. British control of Iraq removes the alleged menace, of long standing, that some power would seek to establish military bases in the Persian Gulf and thus menace communication with India. The Pacific Islands possess advantages as regards naval control and cable communications in the Far East. It would obviously be difficult, if not impossible, however, to place a dollar value upon these assets of a strategic character. It must be kept in mind as well that each of

[64] For a typical statement in support of this contention see Frederick Bausman, *Facing Europe* (New York, 1926), Chapter II, "What Our Partners Seized."

these territories, while in itself of military or naval advantage to the Allies, constitutes nevertheless an exposed position in turn to be defended. And it may well prove to be the fact that the cost of defence will outweight any commercial advantages to be derived from the mandate. Indeed, in certain cases it already has been demonstrated that the maintenance of troops will for some time be a serious drain upon the mandatory power. In Syria the military cost to date has mounted into billions of francs and has mortgaged any pecuniary advantage to France for years to come.

The economic value of the mandated territories to the Allies may be analyzed from the following points of view: commercial, revealed by an examination of trade statistics; financial, portrayed by an analysis of the budgets of the mandates and of the grants-in-aid by the mandatory powers; potential, measured by a forecast of the value of the several territories as producers of raw materials, markets for manufactured goods, and opportunities for the investment of surplus capital.

As to the commercial value of the mandated territories to the Allies, it might be advisable, first, to consider the pre-war trade of the former German colonies, now constituting the Class B and Class C mandates under the League of Nations. In 1912 the total foreign trade of the German colonies was valued at 263,400,000 marks of which considerably less than half, 107,400,000 marks, was with Germany. By taking over the German territories in Africa and in the Pacific, the Allies at best could only hope to displace this German trade with trade of their own nationals; assuming no striking expansion in the commerce with these regions, the additions to the import and export trade of the Allies would be in the neighborhood of $20,000,000 a year. The profits on this interchange of commodities would be an insignificant contribution to the costs of the war, even if they had not been offset by the expenses of civil and military adminis-

tration. The statistics for the mandated territories in Africa indicate no material increase in foreign trade since the war; likewise they reveal the interesting fact that the former German trade has not been altogether eliminated —in Tanganyika, for example, more than 10 per cent of all imports in 1925 came from Germany. In addition to losses of trade which were suffered by the Germans as a result of the loss of their colonies, there was a sum of over 500,000,000 marks invested by German firms in the African and Pacific territories (1913) which was liquidated by the Allied Powers. This is a sizable sum, which unquestionably should be taken into account in any reexamination of comparative gains and losses as a result of the war.

It may be asked whether the post-war trade with the B and C mandates, however unimportant in amount, may not be of vital importance because of the raw materials supplied from these territories to the Allied Powers. For example, the Island of Nauru, under mandate to the British Empire, exported in 1923 more than two hundred and seventy thousand tons of phosphates. About half of this total went to Australia, about 10 per cent to New Zealand, and about 5 per cent to the United Kingdom. But Tunis, Algeria, and the United States continue to be the principal sources of the British nitrates supply, whereas almost two-fifths of the phosphates supply of Nauru goes to countries outside the British Empire. The mandated territory of Tanganyika exported to Great Britain in 1923 some thirteen thousand tons of hemp, which was less than one-quarter of the amount imported by Great Britain from the Philippine Islands in the same year. Cotton is a commodity of which the Germans sedulously promoted the production in Africa before the war; yet in 1925 all the African colonies of the great powers (including the mandates, but excluding Egypt) produced only about a quarter of a million bales, as compared with nine hundred thousand bales produced

in South America and about sixteen million bales in the United States. The following table shows some of the principal raw materials and foodstuffs imported into the United Kingdom from the mandated territories, together with the total of such commodities imported for the year 1923:

Commodity	Exported from British Mandates	Total Imported Into United Kingdom
Grains	11,000 tons	5,000,000 tons
Cocoa	6,000 tons	60,000 tons
Coffee	4,000 tons	20,000 tons
Raw cotton	1,600 tons	436,000 tons
Ground nuts	16,000 tons	96,000 tons
Palm kernels	700 tons	260,000 tons
Copra	7,000 tons	86,000 tons

When one turns from the former German colonies to the Near Eastern, or Class A, mandates, one finds no striking differences from the situation described above. In Syria, of a total import trade of almost 800,000,000 [paper] francs in 1924 less than 15 per cent was of French origin; France furnished less than 113,000,000 francs worth of goods, compared with almost 140,000,000 for Great Britain, almost 80,000,000 each for Turkey and Italy, and 70,000,000 each for Egypt and the United States. The export trade of Syria amounted in 1924 to 340,000,000 francs; of this France received only 52,000,000 francs, or about 15 per cent, whereas Turkey, Palestine, Egypt, and Transjordan, neighbors of Syria, absorbed the great bulk of the trade. Silk is the only important raw material which France obtains from Syria. The export trade of Palestine is largely composed of melons, oranges, nuts, and soap, of which Egypt and Syria receive the vast majority; the British share is about one-third of the total. Only about one-seventh of Palestinian imports originate in the United Kingdom; of the total of seven and a third million pounds (Egyptian) Germany furnishes 12.5 per cent, Syria 14.5 per cent, the United States about 10 per cent. Great Britain controls

a larger portion of trade of Iraq (Mesopotamia), but this was likewise true before the war, when Iraq was politically a part of the Ottoman Empire. The total foreign commerce of Mesopotamia amounts to between £20,000,000 and £24,000,000 sterling annually, of which something less than one-third is with the United Kingdom. At the present no important raw materials are produced in Iraq; dates constitute about half of all the exports, although during the past few years there has been a marked increase in the quantities of barley and wheat shipped to foreign countries. Surely there is nothing in the foregoing figures which indicates that profits derived from trade of the Class A mandates would repay the mandatory powers even the cost of conquering these territories from the Ottoman Empire.

As an offset to trade gains of the Allies by reason of their acquisition of the mandated territories one must consider the financial cost of administering these regions. In Syria, the French have been obliged to maintain a military establishment of from twenty to seventy thousand men; the military expenses of France in Syria for the years 1919 to 1925 were more than 2,500,000,000 francs. The total cost of the Syrian mandate to the French people has been well in excess of 3,000,000,000 francs. In Palestine and Transjordan the British have had a less difficult task, but here again there have been heavy military and administrative expenses. If one examines the budget of Palestine, he will find that the mandate appears to be paying its own way. Actually, however, it has been necessary for Great Britain to arrange and guarantee a loan of £4,500,000 to provide for future extraordinary expenses. Furthermore, the British taxpayer is burdened with the support of British military forces at Jerusalem and elsewhere. The total cost of mantaining the British infantry, air forces, and constabulary in Palestine in 1924 was about £700,000; a portion of this sum was charged against the revenues of Pales-

tine, but the balance has to be provided by grants-in-aid from the British Treasury. Such grants-in-aid up to March, 1925, were in excess of a £1,125,000. Subsidies to the government of Transjordan from 1921 to 1925 amounted to more than £500,000 sterling. For Iraq the bill presented annually to the Parliament at Westminster has been even heavier—in fact, comparable in sum total to the French expenditures in Syria, except that a smaller proportion has been devoted to military purposes. From April, 1920, to March, 1926, the British taxpayer has contributed more than £77,500,000 sterling to the maintenance of the mandate in Iraq—that is, more than $380,-000,000, which in all probability cannot be recovered even in small part. And this does not include the full cost of the Royal Air Force in Iraq, on the theory that, like the British Mediterranean fleet, it is devoted to the defence of all British interests in the Near and Middle East. Neither does it include the subsidies paid to various Arab potentates for the general preservation of peace throughout the region.

And the cost of maintaining the mandates has not been in money alone. From 1919 to December, 1925, the French lost seven thousand men killed as a result of military operations in Syria, and the Druse rebellion was not suppressed until some six or seven months later. It took ninety thousand British and Indian troops to suppress the insurrection of 1920 in Iraq; in the fighting between July and October of that year almost nine hundred men were killed and over twelve hundred were wounded from among the British forces. No economic value can be placed upon the lives thus lost in the task of "pacification" of these former Ottoman territories, but it will be agreed by all impartial observers, under the circumstances, that the mandates in the Near East have been expensive, whatever the valuation placed upon human life.

Iraq may be taken as a fair example of the wide dis-

crepancy which exists between the reputed economic resources of the mandated territories—the vast potential wealth which they represent in the popular mind—and the extent to which these resources actually have been capitalized by the mandatory powers. Mesopotamia is supposed to be flowing with oil—enough to supply the British navy, with quantities to spare. If such be the case, it is all to be demonstrated in the future, for as yet only negligible quantities of oil have been taken out of the ground since the British occupied northern Iraq in November, 1918. A British financial mission to Iraq in 1925 had this to say concerning the petroleum situation:

> We find that considerable expectations have been raised of additional revenue arising from two concessions recently granted, the Turkish Petroleum Company's concession and the Asfar concession in connection with irrigation and cotton-growing projects. We hope that Iraq may in the future derive a large revenue from oil; but it would be rash to regard it as a certainty. The operations of the Turkish Petroleum Company must remain practically at a standstill until the determination of the northern frontier. Thereafter there must be long-continued prospecting, and if the results of prospecting justify it, the construction of a pipe line [of over six hundred miles] to the Mediterranean. We do not anticipate that the Iraq Treasury will receive any appreciable revenue from the Turkish Petroleum Company's operations for another seven years, and we have therefore left them out of consideration.

It must likewise be remembered in this connection that the Turkish Petroleum Company, which possesses the concession for oil-prospecting in the Mosul area, is obligated to deliver to American and French companies half of all the crude oil taken out of the ground in Iraq —25 per cent to a syndicate of sixty-seven French companies, and 25 per cent to seven American companies associated in the enterprise. Furthermore, the monopolistic privileges claimed by the Turkish Petroleum Company have been surrendered in favor of an arrangement which is more consistent with the principle of the economic open door. In short, it is unknown just how much oil there is to be had in Mesopotamia; and of the oil which

actually materializes, the mandatory power is to receive only half. This is far from coinciding with the popular conception that the entire British war debt could be liquidated from profits of the Mosul oil fields. However much oil there may be in Iraq, the British share will doubtless prove to be, in the words of Lord Grey, "the most expensive oil that any country has ever purchased."

Cotton is another commodity which Great Britain is said to be seeking in Mesopotamia—perhaps in sufficient quantities to emancipate Lancashire from dependence upon the United States. It is true that long before the war German economists looked longingly in the direction of Mesopotamia as a possible source of cotton supply. It is likewise true that just before the war British agricultural experts conducted there experiments with the Egyptian plant which indicated that Iraq was capable of growing cotton the equal of the best. During and since the war these experiments have been continued, and two British corporations, the Diala Cotton Plantations and the Eastern Irrigation, Ltd., have been awarded concessions—the former the so-called Asfar concession—by the government of Iraq for the development of cotton culture in that country. Actually, however, the total amount of land under cotton cultivation in Iraq in 1925 was only six hundred acres, and the prospect is not bright that the area will be materially increased in the near future. In any case, tens of thousands of pounds will have to be invested in irrigation works, and still additional tens of thousands of pounds will have to be sunk in rail and motor routes, before Mesopotamian cotton can be produced on a large scale. And even then, with the prevailing disturbances in the world cotton market, there is grave doubt whether it can be produced profitably.

Comparatively little space has been devoted here to the potentialities of the former German colonies in Africa. This negligence has been purposeful. The resources of the Class B and Class C mandates in Africa

doubtless are considerable. (The Germans before the war, however, considered them far from adequate for the needs of a great industrial power). But their ultimate contributions to the wealth of our late Allies must be determined in the future; they are not immediately estimable factors in so pressing a problem as the inter-allied debt and reparations. Furthermore, the resources of Africa must of necessity be common resources of mankind; they cannot be considered the exclusive preserve of the victorious powers of 1918. In the meantime, the cost of maintaining this vast empire in Africa may well offset most of the profit from the trade developed therein. These are questions for the future to determine.

It must be constantly kept in mind that the mandates and their resources may not be disposed of at will. They are held in trust for the peoples of these backward countries and under mandate of the League of Nations. The principle of trusteeship involves responsibilities to the native peoples, to the League, and to civilization at large. Ultimately no mandatory power can disregard these responsibilities.

The first limitations upon the rights of the mandatory powers are those specified in Article 22 of the Covenant of the League of Nations. The letter and spirit of the Covenant require that the mandated territories shall be administered under such conditions as will "secure equal opportunities for the trade and commerce of other members of the League." In the case of the Class B mandates in Africa there was a prohibition upon the "military training of the natives for other than police purposes and the defence of the territory" and upon such abuses as "the slave trade, the arms traffic, and the liquor traffic." Clearly the mandatory power cannot consider the peoples and lands under their control as subject to their arbitrary will or as the objects of old-fashioned and ruthless economic exploitation. Other powers members of

the League cannot be debarred from reasonable opportunity to participate in the commerce and in the economic development of the mandates. In short, the mandates, properly administered, will be outstanding instances of the "open door." Article 22 of the Covenant clearly limits the economic value to the Allies of the mandated territories, since they must share the trade and commerce of the regions with all states members of the League.

A second limitation is that imposed by treaty between the mandatory powers and states outside the League of Nations. The United States, for example, contended that although it did not join the League, it participated with the Allies in a common victory and should be permitted to participate in the common fruits of victory. Hence the United States has negotiated with the several mandatory powers conventions which confer upon the United States and its nationals substantially all the rights and benefits secured under the mandates to members of the League of Nations and their nationals. And in certain cases special rights are assured to Americans—as in Syria and Palestine, for example, where the right has been retained to maintain schools and to conduct instruction in the English language. Here again are restrictions upon the economic prerogatives of the Allies within the mandated territories.

A third limitation is that imposed by agreement between the mandatory power and the mandated territory. This is illustrated in the relations between Great Britain and Iraq, by which the former agrees to terminate the mandate in a period of twenty-five years, or sooner should Iraq earlier qualify for admission to the League of Nations. Where a time limit is thus specified, the mandatory power may hesitate to undertake economic commitments which go beyond the date set for the termination of the mandate. The practical effect of this limitation has yet to be demonstrated by experience, but

it is a most encouraging sign of the possibilities of the mandate system. Great Britain does not possess interminable control over the economic resources of Mesopotamia.

One final limitation should be noted upon the power of the Allies to utilize the mandated territories as means of partially liquidating their war debts. This limitation is the fact that certain of the mandates have been assigned to the British Dominions. South Africa, for example, which hold the mandate for Southwest Africa, contributes nothing directly to the treasury of Great Britain. In so far as she exploits the resources of Southwest Africa, it will be in her own interest not in the interest of the mother country. Hence none of the financial or economic profits of the administration of Southwest Africa will be available for the settlement of Anglo-American obligations growing out of the Great War. To be sure, Southwest Africa will be part of the economic system of the British Empire, but that fact cannot be translated into terms of dollar credits.

There can be no doubt that the mandates are areas of potential wealth, some of which will find its way into the public treasuries of the Allied Powers and more of which will be available to their nationals. But the mandates were not acquired without sacrifices—the loss of tens of thousands of lives and the expenditure of hundreds of millions of dollars, both in the processes of conquest and in the processes of pacification after the war. As has been shown, they are not even now an unmixed blessing to their trustees, for they present serious political, fiscal, and racial problems; they require defence not merely against external aggression but against disruptive and rebellious forces from within. Their economic resources, as yet largely undeveloped, cannot be discounted and converted into values available for the settlement of heavy international payments to the United States. They are not colonies in the ordinary sense of the word, and

they cannot be readily exploited for predatory imperialist purposes. Where their administration has been unsatisfactory—as in Syria—they have incurred serious losses in prestige to the mandatory power. Americans as a whole may ascribe to the mandated territories an economic value far in excess of reasonable expectations. But where is the American who would accept any of the mandates as part payment of the outstanding obligations of the Allies to the United States? And why is there none such? Is it altogether because of the traditional American policy of isolation, or is it partly because of a realization that the mandates are and must for some time continue to be a serious drain upon any power which undertakes their administration?

WAR DEBTS THAT HAVE BEEN CANCELED[65]

Never has it been more clearly evident how wide is the gulf between politics and economics, between reality and opinion, than during the present controversy over the war debts. On both sides of the Atlantic the facts yield to sentimental considerations.

The latest phase of the controversy has been briefly as follows:

On July 14 Secretary Mellon made public an analysis of the American debt settlements, pointing out that a large proportion of the funds advanced to the principal debtor countries was lent after the termination of the war and was for commercial rather than military purposes, and that, except in the case of Great Britain, the terms of the settlements represented virtual cancellation of the purely war debts. As to Great Britain, our loans to that country were not so much to provide war supplies as to furnish sterling for home and foreign needs and to save the British government from

[65] By James Thayer Gerould, Librarian, Princeton University. *Current History.* 24: 237-41. September, 1926.

borrowing at home. Mr. Mellon stated on July 16 that America had canceled the obligations of France for all advances during the war, and that no other creditor of France had accorded her such generous treatment.

In a debate in the House of Commons on July 19, Winston Churchill, the Chancellor of the Exchequer, expressed sharp dissent from Mr. Mellon's views, declaring that the statement as to Great Britain's use of war borrowings for selfish British ends was utterly misinformed, and that the borrowed funds were spent in the United States under the supervision of the United States Treasury in what was, according to the American view, a furtherance and prosecution of the war. The amount spent Mr. Churchill declared to be $7,000,000,000, consisting of $4,000,000,000 borrowed and $3,000,000,000 provided by Great Britain.

On the following day the United States Treasury issued a rejoinder, in which it was stated that the amount actually supplied by Great Britain in cash from her own independent resources for purchases in the United States was not $3,000,000,000 but about $760,000,000; and that vast sums were spent in purchasing exchange to "peg" the pound sterling and to permit Great Britain to purchase goods in other countries at a favorable exchange rate.

The British Treasury replied on July 22, taking issue with the American interpretation of certain items of expenditure; pointing out that Great Britain bore the burden of covering the sterling requirements of her continental Allies; asserting that, but for the fact that the United States did not feel able to relieve Great Britain of the additional burden, the British debt would probably never have been incurred; and concluding that no case for discriminating against Great Britain could be founded upon her use of money borrowed from the United States for the prosecution of the war.

An analysis showing how the allied debts to the

United States have been in part conceled was contained in a Washington dispatch of July 31, which, relying upon official statistical compilations, demonstrated that the present dollar value of the war debt settlements, when worked out at what might be accepted as current interest rates—or, in other words, the cost of money to the United States government—were considerably less than the funded principal of each debt. This, according to the official view, represents a concession on the part of the United States, which, in the case of France, Italy and Belgium, at least, is of very considerable proportions. The dispatch added:

Worked out in another way, it is demonstrated by charts that the total amount of money which most of the foreign governments will be called upon to repay under the debt compacts in the stipulated sixty-two years will be less by billions under the nominal interest rate fixed than it would have been had anything like current interest rates been demanded.

Great Britain, which agreed to pay 3 per cent interest for the first ten years and 3½ per cent for the next fifty-two years, is the only exception to this rule. Her total payments, had the debt pact called for a flat interest rate of 3 per cent over sixty-two years, would have been but $10,368,940,000, instead of the $11,105,965,000 due under the 3 and 3½ combination rate.

The present value of any of the debts means the principal amount which, if computed over the period of funding, at current interest rates, with allowance for the gradual reduction to be made by the relatively small annual repayments of principal would call for the total repayments of principal and interest.

France, for instance, tentatively agreed to fund her debt at $4,025,000,000, and, at varying interest rates which average 1.64 per cent over sixty-two years, to make total payments in interest and principal repayment of $6,847,674,104.

At 3 per cent interest, which is less than current interest rates, a principal amount or present value of but $2,734,250,000 would call for the same total of payments in extinguishment of the French indebtedness. At 4¼ per cent interest the principal amount calling for the same total repayments would be $1,996,509,000, and at 5 per cent it would be only $1,681,000,000.

What Secretary Mellon meant when he said that the United States had virtually agreed to cut the French debt in two and, in effect, had canceled the pre-armistice indebtedness, was that the total payments to be made by France at the nominal in-

terest rates in the funding agreement actually represented the repayment of but about half of her debt of $4,025,000,000 at current interest rates.

The same situation in regard to the debts of Italy and Belgium is demonstrated by charts and statistics, except that Italy obtained much easier terms as to the interest she must pay until the debt is liquidated than either France or Belgium.

The United States would obtain full repayment of the debts only if the debtor nations paid to this country a rate of interest on the instalments of principal repayment spread over sixty-two years equivalent to the cost of money to the United States.

It was considered beyond the capacity of the debtor nations to pay such an interest rate, and the United States therefore has accepted less than the full present value of the debt to the extent that the interest to be received under the settlement is below the cost of money to this country, which is now about 4 per cent. The debtor nation also received a concession in its debt to the extent the interest is lower than the cost of money to that debtor nation.

That Great Britain more nearly approaches full repayment of her debt than any other of the large allied countries is evident from the fact that she has agreed to pay a minimum of 3 per cent interest on postponed principal repayments, whereas the average interest rate to be paid by France and Italy is below 2 per cent.

The charts show, in fact, that if 3 per cent interest is to be considered as average "current interest" over the period of sixty-two years, a small profit would be obtained by the United States, but on the other hand if 4¼ per cent is to be accepted as the current interest rate, a substantial concession would have been made to Britain.

To France, Italy and Belgium have been granted substantial concessions even if the current interest rate should be considerably less than 3 per cent. The present settlement with France, figured at 3 per cent, is worth but 64.6 cents to the dollar and that with Belgium 62.5 on the dollar and that with Italy but 36.4 cents on the dollar.

In the case of most of the other debtor nations to whom loans were made only after the armistice and for reconstruction purposes, the debts have been funded on practically the same basis as that accepted for the British compact. These show concessions only when it is figured that current interest rates are to be more than 3 per cent on the average over the period of the funding.

So far from acquiring merit by these concessions, the United States has been rechristened as Uncle Shylock by the common consent of all Europe and only an occa-

sional voice is raised in our defense. The British government, by an adroit concession to French opinion, has negotiated an agreement which, though only slightly more favorable than our own, has been well received. At the same time a portion of the British press, particularly those papers controlled by Lord Rothermere, and a number of members of Parliament, have been expressing, in no measured terms, their dissatisfaction with the settlement of British obligations toward us. These newspapers are particularly incensed over the distinction drawn by Mr. Mellon between that portion of the debt contracted purely for war purposes and that which he considers as a "commercial" loan. This position they consider untenable. In their opinion they are joined by many Americans, whose views found expression in a notable editorial in the *New York World* on July 22.

Cooler heads, both inside the British Parliament and out, deprecate the acrimonious character of the present discussion and particularly any manifestations of personal hostility to the touring American. They realize that the United States cannot be dragooned into revision and that, to use Winston Churchill's phrase, "time will be on the side of easier and wiser solution." The British attitude was again stated by Sir Austen Chamberlain, the Foreign Secretary, when, speaking in the House of Commons on August 4, he said:

> A statement was attributed, rightly or wrongly, to the Secretary of the American Treasury which wholly or largely misrepresented the character of our borrowings and the purpose for which they were applied. It was rightly felt that it would not be to the interest of good relations that such a misapprehension should be given currency and credence because no notice was taken of it, and Mr. Churchill accordingly stated the facts correctly.
>
> But Mr. Churchill never complained, and made it clear that he did not complain, of the terms of settlement with the United States. There is no man in this country who, if he had to decide the question as to whether the promise of his country would be honored, would not have said: "Of course Great

Britain will honor its word and will settle the debt which we have agreed to settle."

But you must not ask us to say, and other people must not ask us to say, that we think this was the best solution that might have been arrived at in the interests of the world at large. We, on our part, were not only debtors to the United States but large creditors of other powers; and we should have been prepared, and succeeding governments would have been, to wipe the slate clean of all these obligations among the allied and associated powers as being part of our contribution to the great cause in which we were all engaged.

This solution did not commend itself, and we have since then adopted as our policy that from our debtors we will ask only so much as will meet the payments which we have to make ourselves. The actual sums we are receiving, or that may likely be received, will not amount to the sums which we have to pay.

Be that as it may, no British government would think it becoming with the dignity of this country, or compatible with our honor, to go cap in hand to those to whom they have undertaken obligations and ask to be excused. We make no complaint and we will discharge our obligations, but at least we would like it to be known in what manner that money was borrowed and to what it was devoted.

Ramsay MacDonald, Prime Minister of the first Labor government, spoke in a similar strain, declaring that Great Britain had made a bargain with America and that no British government would fail to carry it out.

Nevertheless it is recognized in Britain that few American financial authorities whose views are not colored by political considerations, believe that the settlements already made are permanent and that, through two generations, Europe will continue to pay us tribute. Indeed, there is a growing opinion, both in America and abroad, that revision is bound to come. This view is well expressed in an editorial by J. L. Garvin in *The London Observer* of July 28 when he wrote: "The best thing—and we believe statesmanship will come to it—would be an agreement to make a clean slate, by wiping out all these obligations, German indemnities included, as part of the policy of disarmament, revision and concentrative peace."

Georges Clemenceau, war Premier of France, after

a silence of six years, published in the Paris newspapers of August 8 an open letter to President Coolidge, in which he appealed to America not to consider the French war debt as a purely business proposition, but to take into account France's empty treasury and her sacrifices in blood and treasure. Clemenceau charged the United States with having made a blood truce with the common enemy, Germany, in utter disregard of her companions in arms, just as Russia did at Brest-Litovsk, and he intimated that what it was sought to make France do was to pledge her territory, like Turkey, as security for her loan—something to which she never would consent.

While the most pronounced Francophile would hardly claim that the French have as yet dealt with their financial situation in realistic terms, it is fair to say of them that they are clear sighted enough to dislike to agree to an obligation which they do not believe is within their power to meet. No one at all familiar with French psychology will be greatly disturbed either by the parade of the mutilated soldiers on July 14 or by recent sporadic incidents of discourtesy shown to Americans in Paris. It is regrettably true that too many Americans provoke it. President Coolidge's recent admonition to them was well timed.

The Anglo-French agreement, signed on July 12 by Winston Churchill and Joseph Caillaux, recognizes that the debt of £653,127,900 is to be settled by annuities, during the financial year 1926-27 of £4,000,000, rising by an increment of £2,000,000 until 1930-31, when the sum of £12,500,000 will be paid. This figure will be maintained until 1957-58, when there will be a further increase to £14,000,000. Payments will cease in 1987-88. The sum of £53,000,000, representing gold transferred by France to Great Britain during the war, is to remain as a non-interest bearing debt the disposition of which is subject to future agreement. The annuities

rest on the sole credit of France, but outside the settlement, letters have been exchanged stating that, in the event of a failure of Germany to meet reparation payments, France would be entitled to ask for a reconsideration of the terms of the agreement. The sum of the annuities will provide for the payment of principal and interest on about 40 per cent of the actual debt.

INTER-ALLIED DEBTS [66]

The Root of the Trouble

The real heart of this difficult problem is not whether these debts are or are not war debts. The question which will be debated as long as the debts last is whether, being war debts, they should be treated exactly as the whole world rightly expects commercial debts to be treated. It is here that there exists apparently a profound difference between European and American opinion. American opinion, if we understand it aright, is predominantly that for America the great war was not a war of unlimited liability. It was not *their* war in the same way that it was *our* war. They entered into the war in 1917 mainly in order to save the Allies, since no real harm could come to themselves. They saved the Allies, and in so doing lost many human lives besides incurring a vast internal debt. It is therefore ordinary business justice that, having performed these infinitely valuable services for the Allies, they should demand the repayment of a great part at any rate of the sums which they lent them during the war, and which each allied government solemnly undertook to repay to the last cent. This view is reinforced by arguments that it is exceedingly important for the world that contracts, whether by governments or individuals, should be upheld, that if one country is ever again to

[66] From *Round Table.* 16: 728-32. September, 1926.

lend money to its allies in wartime, the sums so lent in the last war should be repaid, and further that in that event repayment must inevitably be apportioned according to capacity to pay.

Most European taxpayers, on the other hand, regard, and will always regard, these debts in a quite different light. They believe that from March, 1917 America had engaged herself in a war of unlimited liability in just the same way as had all the other belligerents, and that it was equally necessary for her prestige and her future as for theirs that she should be on the victorious side. They believe, too, that it is hopeless to draw up a profit and loss account as between ally and ally. Some nations gave the lives of their soldiers; others the money of their taxpayers. From the end of 1914 to the middle of 1916 France held the bulk of the fighting line while England was preparing an army to fight. From March 1917 till the middle of 1918 France, England and Italy held the line while America was preparing to fight. The countries fighting gave their men and their treasure; the countries preparing to fight could, until they were ready, in the main only give their treasure. If the United States had been ready in March, 1917 to play her part fully the war would soon have been over, and the vast bulk of the debts never incurred. These debts were not incurred solely for the benefit of the borrowing countries. They were incurred for the benefit of all. England lent over £600,000,000 to Russia, the greater part of which she will never see again. But can it be said that that money has been lost any more than the money which during the same period she lavished, not on the Russian armies, but on her own? Both contributed to the final victory. It is impossible to say that the $11,000,000,000 which America lent to the Allies after March, 1917 were not lent partly for her own benefit, any more than it is possible to say that the $11,000,000,000 lent by England to her Allies were not also lent partly for England's

benefit. No nation at war *lends* men to its allies. Is there much more reason why it should *lend* money?

This is the view which naturally finds most favour in those countries which have borrowed more than they have lent. In Great Britain, which lent to her Allies vastly more than she borrowed from America, sentiment is divided. But, while the force of the above argument is felt more seriously by the British taxpayer when he has in mind what he owes America, rather than what France and others owe him, this country has, we believe, always been ready to agree to a complete cancellation of debts if America would do likewise. Lamentably, however, the European Allies in general, including England, have not, by their example, encouraged the American nation to show a generous spirit. No nations could possibly have shown a more selfish and desperately short-sighted view than the Allies themselves in the dreadful reparation settlement of the Peace Conference. How could they decline to pay debts to the United States, at any rate on the ground of inability to pay, when they were exacting, or trying to exact, from Germany sums many times larger? Even now how is it possible for them to complain on that same ground of the settlements which have been or are being arrived at, when they intend to demand from a single nation £125,000,000 per annum?

The opinion of this review has always been and is now that it would have been right and wise for all the allied and associated nations to forgive their mutual debts, provided at the same time that there were a generous settlement of the reparation problem. Undoubtedly, had this been their policy in 1919, the world would be far further on towards peace and prosperity now, and we do not despair that the time will arrive when this policy will gain the day.

The American nation, however, from whom such a policy would have demanded a generosity even greater than from us, decided otherwise and insisted on repay-

ment. In the face of this insistence we made our settlement in 1923. It may be argued that by waiting we could have obtained a more favourable one. That is possible, though not certain. But that it was right and wise and even in our interests—considered in the broadest light—to settle we have no doubt. We could not plead that is was impossible for us to pay, and it was not consistent with the position of the British Empire in the world or with its relations to the American commonwealth that we should remain under a moral obligation to the United States government. Moreover, it is somewhat difficult for us to condemn the principle of "charging what the traffic will bear," or, in other words, "payment according to capacity," since we ourselves have applied that principle as between France and Italy.

Nevertheless it remains regrettably true that while the payment of our debt on a basis more onerous than that of other settlements made by the United States government has maintained our honour and our credit, it has not improved, and indeed cannot improve, our relations with our great neighbor. Even if it be admitted that it is both just and politic to demand the repayment of war debts, "capacity to pay" is a very shaky principle on which to found a settlement lasting over two or three generations. Who can judge of a nation's capacity to pay even in this very year? Who can judge of it, in relation to that of other nations, say, in 1940, or 1960, or 1980, when the payments now fixed will still be being made? Elsewhere in this review there are quoted figures showing how immensely richer the United States is than England even now. As this wealth grows still more disproportionate and the American debt and taxation constantly lighter, will it be possible for the British taxpayer, heavily burdened and specifically discriminated against, to feel certain that he is being treated with justice?

The United Sates, we believe, have no intention whatever of revising the settlement. England will never ask for its revision and will punctually maintain it. She will fulfil her bargain and fulfil it, we hope and believe, in silence and without complaint. If she once more regains her prosperity the burden may appear less onerous to her than it does with all her present troubles. But to those who wish Anglo-American relations to remain unclouded the problem cannot but cause some apprehension.

THE BURDEN OF GERMANY'S OBLIGATIONS UNDER THE DAWES PLAN [67]

Germany's total obligation stands today at the amount agreed upon in May, 1921, namely, 132,000,000,000 gold marks. This sum, in the minds of most economists, is a preposterous one to expect Germany to pay.

Beginning with the fiscal year 1929-30, Germany, under the Dawes plan, will be required to pay 2,500,000,000 gold marks a year in addition to whatever amounts may be due under the index of prosperity, two and a half billion gold marks a year are merely sufficient to cover the interest at 5 per cent on the A and B bonds, and do not allow one cent for amortization. Germany's total obligation on the principal will therefore be reduced only by the amount paid under the index of prosperity. The more prosperous Germany proves to be, the more she will pay under this index of prosperity and therefore the more quickly will she amortize the A and B bonds.

But what motives has she to amortize these bonds under the present arrangements? The more prosperous she is, the sooner will she be called upon to meet the debt charges on the 82,000,000,000 marks of C bonds,

[67] From an address by Edwin Walter Kemmerer, professor of economics and finance, Princeton University, financial adviser on the Dawes Commission. *Annals of the American Academy of Political and Social Science.* 120: 7-10. July, 1925.

and these would call for nearly 5,000,000,000 gold marks a year. Such a penalty placed upon prosperity greatly weakens the incentive to strive. Well may the German people ask: Is it worth while to exert ourselves if the more we pay the more we have to pay, while there is not the faintest hope that by regular performance of obligations the annual burden can be reduced either in our lifetime or that of our children? I believe, therefore, that the time has arrived when this troublesome question, still unsettled because heretofore settled wrong, should be again taken up for serious consideration.

If the C bonds could be wiped out entirely and Germany's total obligation on all accounts fixed at the amount of A and B bonds, namely, 50,000,000,000 gold marks, less credits for the sums she has already paid, I am inclined to believe that a reviving Germany would soon be able to meet out of current income the regular interest charges on this principal sum and, in addition, through the payments called for by the index of prosperity, to amortize the principal at a reasonably rapid rate. The payments called for under the Dawes plan are large —larger, I believe, than most American and English economists thought economically desirable—but they are not at all impossible for a vigorous Germany, *provided* there is a strong incentive for her to pay them. With the fixing of a reasonable total amount, and with liberal discounts for anticipated payments, the German people could take heart, and with a real pride in achievement and a strong national patriotism, such as was shown by France after the Franco-Prussian War, could and would tackle with vigor the task of unloading the burden.

I will not go into a consideration of the figures of Germany's total wealth, her national income, her trade balance, and the like, all of which have a bearing upon this problem of her capacity to pay the amount called for under the Dawes plan agreement; and I am not going to use space to prove the obvious, although frequently

forgotten, fact, that Germany can pay reparations only by exporting more goods and services than she imports, using those terms in their broad sense. I do want, however, to stress two important points.

The first is that an annual excess of 2,500,000,000 marks of exports over imports is not an impossible task for a nation of sixty millions of people, *provided* the world does not place unreasonable restrictions upon the receipt of German goods. Two and a half billion gold marks are about $600,000,000. For sixty million people, that is approximately $10 per capita per annum, or something like 3 cents per day per capita, and this amount per capita will decline as the German population increases. If the German people will reduce what would otherwise be their rate of accumulation of capital and, more importantly, reduce their personal consumption of goods at a combined rate for both of approximately 3 cents per day per capita, the values so released when taken together would be sufficient to meet this annual payment of 2,500,000,000 gold marks. There are many people in Germany to whom an additional economy of 3 cents per day would be an impossible hardship, but there are millions who could reduce their family budgets many times that amount without serious inconvenience; and when Germany comes back to reasonably normal condition, as she is now doing rapidly, a very large proportion of the German people could effect such economy without great hardship.

Furthermore, Germany may meet her reparations obligations by exporting her goods to the whole world, and need not depend chiefly upon marketing her products in such countries as France, Belgium, Italy and England. According to the Dawes plan, the fund representing the reparations obligations of Germany will be collected from the German people in the form of taxes and other public charges and deposited in the Reichsbank, to the credit of the reparations account.

In order to realize on the deposited funds the creditor governments, under the regulations imposed by the Transfer Committee, will presumably sell their Reichsbank credits to the public in their respective countries, and the public will use these credits to purchase the things they most want. These purchases will be goods, services, securities, etc., which the public may buy either directly from Germany, or from other countries, as, for example, the United States, Argentine, Brazil, England, etc.; but in any case the people in the creditor countries will actually be paying for them through drafts drawn against German credits. France, for example, might draw against the credit to the amount of, say, 10,000,000 marks to buy dyestuffs in Germany, and might draw against the fund for a second 10,000,000 marks to use in buying coffee from Brazil, the Germans having previously obtained a corresponding credit in Brazil by shipping to Brazil an equivalent value of, say, German cutlery. In this second instance, France would be receiving her pay in coffee from Brazil, and Germany would have made her payments by exporting cutlery to Brazil. France will take her German credits in such goods and in such quantities of these goods from all the world as may best suit her wants, due consideration being given to the prices of the various commodities in the different markets of the world, and to prevailing exchange charges.

The situation would be much the same as if Germany should give her creditors a large number of signed checks or orders payable not in money but in any commodities which the creditors or their assignees might want to take, calculated at market price, from any or all of the countries of the world in any amount desired up to a maximum total of 2,500,000,000 marks. Under such circumstances the creditors would take the value due them in a great variety of goods, including perhaps a little gold, from a large number of countries. They would buy

where they could buy cheapest; they would discontinue buying any particular commodity when the price at which they could sell it at home declined unduly, or when the price at which they could buy it abroad rose unduly.

Of course it is recognized that there exist in the countries that were formerly the enemies of Germany strong prejudices against German goods. The prejudices will be an obstacle to the extension of the sale of German products in those countries. Opposition of this kind, however, weakens very quickly under the pressure of economic self-interest. People may prefer home-made toys to German toys, but if the latter are appreciably cheaper, a very large proportion of the buyers will purchase the German toys. Furthermore, it should be noted that a large part of the world is not prejudiced against the Germans to any considerable extent, and that Germany is building up her markets rapidly in such countries, as for example, those of Latin America and the Orient.

Germany no longer realizes an advantage in competition with other countries for foreign markets through the fact of a depreciating currency. Her manufacturers and her laborers, moreover, for many years to come must pay extremely heavy taxes, in order to enable the government to meet its reparations charges, and these heavy taxes will presumably be a handicap to Germany in meeting international competition. It should be noted also that a large part of Germany's exports to Latin America and the Orient will not come into competition with home industry in those parts of the world.

Most of Germany's reparations payments will go to France, Belgium, England and Italy. For these four countries 2,500,000,000 marks of reparations exports from Germany would represent reparations imports of roughly about \$4.50 per capita of their population, or something like 1¼ cents per day per capita. That should not be enough to harm any country. Of

course it is recognized that the bulk of these payments will be made in a comparatively small variety of commodities and that some manufacturers of competing products will suffer, but if they cannot meet competition when it is fair and square, they should take the consequences.

Up to the present time we have been viewing this problem too much from the standpoint of the self-interest of a few individual manufacturers, whereas the proper viewpoint should be that of the social welfare of the great consuming public. In that connection the big point is that the German people will have for some years to come about $600,000,000 worth of goods less to consume each year than they otherwise would have, while the creditor nations will have about $600,000,000 worth more to consume than they would have if Germany were not permitted to make her payments. It will be a sad commentary upon the economic intelligence of the people in the creditor nations if they permit the narrow self-interest of a few manufacturers to prevent their people from receiving the goods due them on the reparations account.

THE BALFOUR NOTE AND INTER-ALLIED DEBTS [68]

Mr. Churchill pronounced a *credo* in the Balfour note before he went to Paris. He has repeated it on coming back. "The Balfour note," he says, "remains for us a dominating guide of principle set up freely by our own hands." There is some saving grace in the last seven words. Let me plead with Mr. Churchill, if he wants a settlement, that freely by our own hands we should take it down again.

[68] By John Maynard Keynes, British financial adviser at the Paris Peace Conference. *Nation and the Athenaeum.* 36: 575-6. January 24, 1925.

The Balfour note insists that our receipts from Germany *plus* our receipts from our Allies must equal our payments to the United States. When the note was written, its effect was indeterminate. We did not know how much it would require France to pay, or the proportion that this would bear to what Germany would be paying France. Now we can make limiting estimates of both sums.

We have to pay the United States about £35,000,000 a year, rising to £40,000,000. The Dawes scheme will yield, if and when it is in *full* operation, and after allowing for various prior charges, about £100,000,000 a year. France's share of this will be about £54,000,000, Italy's £10,000,000 (less at first), and ours £24,000,000. (I neglect the minor Allies because they would complicate the calculation and hardly affect the result.) Thus the Balfour note demands that France and Italy should pay Great Britain not less than £16,000,000 a year. Since the aggregate debts of these two powers to ourselves and to the United States respectively are about equal (our share of Italy's total debt is greater, and of France's less), we must assume that the United States will not settle for a smaller sum than what we receive. If the whole of Italy's share of reparations is devoted to her debts, France is left, on these assumptions, with £22,000,000 to pay. In this case the net result of the debt settlements and the Dawes scheme would be that the receipts from Germany would be distributed as follows:—

United Kingdom	Nil.
Italy	Nil.
France	£32,000,000
United States[69]	£58,000,000

Very improbable things are easier said than done. Who believes that this will ever be done?

But we have not yet reached the gravamen of my criticism of the Balfour note. The above is what would

[69] Including her own direct share.

happen if the Dawes scheme is perfectly successful. If the Dawes scheme is only partly successful, then, by the principle of the Balfour note, *France must make good the difference* to ourselves and the United States. For example, if the Dawes scheme produces half its maximum, which, in the opinion of many good judges, would be a considerable achievement, France will get less than nothing at all and *more than the whole* of Germany's payments will go to the United States. France would become, in fact, a deferred claimant on a third share of the Dawes scheme, if the scheme works very well, and a guarantor of Germany, if it works less well. Is not anyone very silly who thinks that this can come to pass?

It is obvious that France will never agree to such a settlement. But suppose *per impossibile* that she did. In this case Great Britain and the United States have theoretically, no further interest whatever in the operation or productivity of the Dawes scheme. France becomes the only interested party—interested not merely as a creditor but as a guarantor who must make deficiencies good.

This fatal objection is necessarily inherent in the Balfour note. It is of the essence of the note that the less Germany pays, the *more* France shall pay;—that is to say, the less France is in a position to pay, the more she shall pay. Diplomatically and financially alike, this is topsy-turvy. It would never bring us cash; yet it would destroy our diplomatic authority as a moderator between France and Germany. The Foreign Office would have sold its influence for a mess of pottage which the Treasury would never taste.

The Balfour note, therefore, is bad in principle. There can be no working settlement except on the exactly opposite principle, namely that the less Germany pays, the *less* France shall pay. The amount of France's payment must vary in the same direction as Germany's, not in the opposite direction. This was the principle of the suggestion which I offered in my *Nation* article of Jan-

uary 10, by which France's payment should be a proportion of her receipts from Germany.

According to current report, France herself has put forward just this principle through the mouth of M. Clémentel. I suggested that the proportion be one-third. M. Clémentel's reported offer would amount, on the assumption that the United States got the same terms, to about half my figure. But it does not follow that he would not offer more to obtain a settlement on these lines.

Such a settlement would increase, instead of diminishing, the interest of ourselves and the United States in the Dawes scheme. We should have, between us, a bigger interest than France. We might, in this way, obtain a moderate contribution towards our American debt, corresponding to that part of it which we contracted, indirectly, on French account. We should certainly place ourselves in a strong moral and diplomatic position to claim a moderating and pacific influence in the Franco-German problems which still lie ahead.

The Balfour note would be dangerous, if it were not moonshine. Mr. Winston Churchill will waste his time and spoil his reputation for common sense, if he lets himself be deceived by its superficial plausibility. There is nothing to be said in favour of the Balfour note—except in comparison with the confusions of the present American position. For the American isolationists, indeed, there is only one logical policy—complete cancellation.

FRANCE'S EXTERNAL DEBT AND BURDEN OF TAXATION [70]

Your President has asked me to set forth various facts concerning the external debt of France and the French burden of taxation. There is no better subject than this to show to what point the effects of the war

[70] From an article by Robert Lacour-Gayet, financial attaché, French Embassy, Washington, D.C. *Proceedings of the Academy of Political Science.* 12: 303-11. July, 1926.

have been prolonged in France and will continue to prolong themselves for a long time to come.

Before 1914 my country had no external debt; on the contrary, she was creditor to the rest of world. The weight of taxes was, at the same time, easily borne by a population whose wealth increased regularly, thanks to its talents for labor and economy. This situation is today entirely changed. France has become debtor to the great financial powers of the world. In order simultaneously to meet her obligations and to repair the devastations which the war caused on her territory, she has had to levy taxes to such an extent that no country at the present time can lay claim to a fiscal burden equal to that which weighs upon the French taxpayer.

Whatever these burdens may be, the French government has always considered that the reimbursement of its external debts constituted for France a sacred obligation. . . . The settlement of the external debts does not constitute merely a duty for France. It is, in her eyes, a necessity. A definite agreement with her creditors appears, in fact, as the indispensable preface to any monetary stabilization, without which a country is condemned to live in uncertainty and without which budgetary equilibrium can never be definitely realized. That is why, after having entrusted M. Bérenger, Ambassador of France to the United States, with the task of reaching a settlement with the American Debt Commission, the government of M. Briand has now the intention of arriving, as soon as possible, at a settlement with Great Britain.

Once these two settlements are concluded, France will know exactly what her external charges will be. Her debt abroad is really composed of two distinct elements. One part represents the obligations to foreign countries. There is, first, the debt to the United States which, on April 15, 1926, amounted to approximately $4,350,000,-000. Then there is the debt to Great Britain which represents nearly £700,000,000. To this debt must be added

the various loans contracted by France abroad, especially the three loans of $100,000,000 each made in the United States in 1920, 1921 and 1924. At the average rate of the dollar during 1925, the external debt of France was approximately 153,000,000,000 francs, that is, about 35 per cent of her total debt.

In the future, what will be the burden of this debt on the French budget? The budget for 1926 provides for the service of this debt, without taking into account the settlements which have been effected or are to be effected with the United States and Great Britain, an expenditure of 1,405,000,000 francs. It is impossible to foresee under what conditions the settlement of our debt to Great Britain will be made and in what proportion it will increase our burden. But from this time forth, it is possible to state that the agreement which was signed in Washington on April 29 last will not greatly influence, at least for the first years, the total of the expenditures which we have to make externally.

The first five annuities of this settlement are equal to $30,000,000, $30,000,000, $32,500,000, $32,500,000 and $35,000,000. As we have been paying America $20,000,000 a year as interest on the commercial debt, this schedule represents an increase of $10,000,000 for the first two years, $12,500,000 for the next two, and $15,000,000 for the fifth. But this slight increase of our charges is not obligatory. The agreement, in fact, gives us the right to defer for three years that part of the payments above $20,000,000. For this reason, until June 15, 1930, that is until the payment by Germany of the first full annuity provided under the Dawes plan, we remain free not to pay to America more than we now pay as interest on our debt for stocks, that is, $20,000,000.

The agreement signed with the Debt Commission takes into account therefore—and this is essential—the future decrease of our external debt. The payments

which France has to make externally amount, in 1926, to $114,000,000, in 1927 to $96,000,000; in 1928 to $86,000,000; in 1929 to $117,000,000, but do not exceed $50,000,000 in 1930. From that year on, they do not reach more than $25,000,000 (with the exception of the years 1934 and 1941) and decrease regularly until 1949, when the entire external debt should be amortized. This decrease of our debts from 1930 on coincides with the increase of the sums which Germany is to pay to the allied governments. It goes without saying that in promising to pay to the United States annuities which increase rapidly from 1930, and in estimating her capacity to pay, France has taken account of the sums which she is to receive from Germany. In signing pledges to which it expects to remain faithful and which it wishes to execute scrupulously, the French government does not doubt that its debtors will show the same care in fulfilling treaties and existing agreements as it intends to exercise toward its own creditors.

The burdens imposed by the external debt of France represent, it is true, a small part of the French budget, in which the service of the internal debts occupies a much larger place. It is nevertheless one of the reasons why the French taxpayer is at the present time subject to exceptionally heavy imposts.

No story is more widespread abroad than that the Frenchman does not pay taxes. Until lately, it was possible to find in the foreign press, and especially in the American press, a large number of articles trying to show that there was no more enviable position in the world than that of the French taxpayer. A certain number of American documents have themselves done justice to these accusations. Before giving detailed statistics on this point, I will content myself simply with recalling the studies published by the National Industrial Conference Board and by the Institute of Economics, which fully recognize the fiscal burden which exists in France.

In order to appreciate clearly the characteristics of the French fiscal system, it is always necessary to bear in mind its extreme complexity. The income tax which was created in France in 1914, and put into application in 1917, furnishes only a part of the tax receipts. To this must be added a great number of indirect taxes on many products, such as alcohol, tobacco, salt, sugar, matches, vinegar, oil, colonial products, etc. One must also take into consideration the custom duties, the taxes on luxuries and the registration fees. At the present time, the division of tax receipts in France is as follows:

Income tax—27.9 per cent of the total receipts.
Tax on wealth—stamp taxes—24.7 per cent.
Luxury taxes—3.7 per cent.
Indirect taxes—43.7 per cent.

As a result of this division of taxes all classes of the population are reached. The extreme division of wealth in France and the large number of lesser fortunes have rendered necessary a very flexible and greatly variegated fiscal system.

It is always difficult to make comparisons between the fiscal burdens borne by the various countries. It is from the total revenue of a country that one must start, if one wishes to appreciate exactly the tax burden, that is, the portion of the national revenue which is levied by the government in order to meet the expenses of the community. No subject is more debatable than this. Nevertheless, from very careful studies which have recently been made by official French services, it appears that the French national revenue may be calculated as follows:

Income from land taxes	15,300,000,000 francs
Income from securities	22,000,000,000
Income from salaries and wages	55,500,000,000
Commercial revenues	14,000,000,000
Income from agricultural pursuits	22,500,000,000
	129,300,000,000 francs

These same calculations show that the revenue of England amounts to approximately £3,800,000,000 sterling and that of the United States to $67,000,000,000. By comparing the total amounts of taxes collected in these three countries in 1924 and 1925, it may be ascertained that in 1924 the fiscal burden represented 23.8 per cent of the national revenue in France; 22.3 per cent in England and 11.5 per cent in the United States. In 1925, the percentage for France amounted to 26.2 per cent. Consequently, the tax burden in France represented more than one-quarter of the national income and more than double the fiscal charges in America. Since that date the law of April 4, 1926, has created new taxes in France and has increased once more the rate of a certain number of existing taxes. At the same time a new reduction of the income tax rates has been voted in America. It is therefore undeniable, after this increase of taxes in France and this reduction of rates in the United States, that the fiscal burden in France will be three times the fiscal burden in the United States. . .

I ask your pardon for quoting so many figures. I fear they justify the reputation for severity, rather well-earned I admit, to which fiscal science is entitled. Therefore I hope I may take advantage of your indulgence, for it is extremely difficult to make financial points without the aid of some figures.

The fiscal burden is particularly hard to bear for those taxpayers whose incomes have not increased in proportion to the depreciation of the franc, that is, bondholders and public officials. A public official earning 25,000 francs in 1913 now earns 34,000. In 1913 he paid 293.75 francs in taxes. He now pays 3,160.87. Likewise, a public official earning 9,000 francs in 1913 now earns 17,000, but he pays to the government 1,055.67 francs instead of 168.75 in 1913.

On the other hand, the exemptions existing in France for small incomes are very much lower than those current

in Great Britain and the United States, and because of this a greater number of taxpayers are reached by the tax. A taxpayer having a salary of $1,000 a year is not taxed in the United States or in England. In France he pays in taxes the equivalent of $153.

With an income of $4,000 an American pays $22; a Frenchman pays $712.
With an income of $10,000 an American pays $207.05; a Frenchman pays $1,963.
With an income of $50,000 an American pays $6,137.05; a Frenchman pays $18,870.
With an income of $500,000 an American pays $19,961; a Frenchman pays $265,700.

I hasten to add, however, that I do not think that the French Treasury has very often the good luck to find itself in the presence of a taxpayer having an income of $500,000.

The tax rates have reached such a point in France that there can be no further increase without the risk of a diminution instead of an augmentation in the receipts. A time comes in every fiscal system, as the American Treasury very well knows and often proclaims, when it is dangerous to increase the fiscal burden and when, on the contrary, it may be advantageous to reduce it, in order to encourage production and in that way increase the taxable powers of the country. The fiscal effort accomplished in France during the last six years is all the more meritorious for having taken some time. It is only, in fact, since 1920 that the tax rates have increased in any appreciable manner. But in order to understand, with fairness, this delay, it is always necessary to take into account the fact that until that time the reconstruction of the richest region of France had hardly been started and that the government could not hope to recover any appreciable amount from those departments which in normal times furnish a very large part of the tax receipts. The prompt reconstruction of these departments was therefore not only a national duty for all the French people, but it was a necessity from a fiscal point of view.

I beg pardon for having insisted somewhat at length upon the question of taxation in France. But it was necessary in order to show plainly the great effort which has been exerted by my country.

The French government fully recognizes the very grave difficulties which it has to face and the nation admits that these difficulties cannot be surmounted save by great patience and tenacity of purpose. But in presence of the long road which still remains to be traveled toward definite financial restoration, it is good to remember, from time to time, the road which has already been traversed. At the present time, after a war which cost France almost one million, four hundred thousand men, that is one man killed for every twenty-eight inhabitants, and which caused on its territory damages which, according to the official valuation placed thereon by the Reparations Commission, amounted to more than 136,000,000,000 francs, France has succeeded in paying more than 100,000,000,000 francs for the reconstruction of her devastated regions, in balancing her budget for the time being, and in meeting her external debts.

Such a result allows a faith in the future, whatever may be the obstacles of the present. Those who would doubt our ability to triumph over the present crisis, I would simply advise to review their history of France and to re-read the account of the crises which we have met in the course of centuries. They will find therein, I am sure, as I myself have found, many definite reasons for confidence.

CLOUDS IN THE FRANCO-AMERICAN SKY[71]

Why deny it or try to conceal it? There is a cloud in the Franco-American sky, a big, dark, unpleasant cloud. It is better to see it as it is. It is always better

[71] By Stéphane Lauzanne, editor-in-chief of Le Matin, Paris. *North American Review.* 223: 583-9. December, 1926.

to see the clouds when they appear on the horizon. It does not help to turn the eyes away, or lower the head, or keep a stereotyped smile on the lips. The only thing to do is to look at it sternly, coldly, and let it pass by.

Many causes bring clouds. But, as far as the Franco-American cloud is concerned, there is only one cause for it, at least if it is observed from a French meteorological office: the settlement of the debt. Nineteen Frenchmen in twenty are against the settlement of the debt as it was agreed upon in Washington, between the American War Debt Commission and Ambassador Bérenger. Until now all the efforts, all the arguments, all the power of persuasion of the Frenchman who is for the ratification have failed to convince the nineteen Frenchmen who are against it. Will there be a change? Nobody knows, nobody can tell. Practically all the *élite* is for the ratification. The *élite* includes the government (any government for governmental reasons will be in favor of ratification), the bankers (the French experts have unanimously recommended the ratification in their July report), the economists, and a few responsible public men. But the crowd, the immense crowd, led by the ex-combatants and by irresponsible politicians, is against the ratification. All the newspapers —except the one to which I have the honor to belong— are against. And the further we go, the more the feeling against ratification increases and crystallizes. However deplorable it may be, one must pay attention to it; one must always take heed of a cloud in the sky.

I will try to explain this sentiment, as one endeavors to explain the causes of a storm. But in order to make myself well understood, I must first of all explain one thing, that is that there are two categories of Frenchmen: those who know America, because they have visited it, and those who do not know it, because they have never set foot on it. But even among those who know America, because they have visited it, one must discern

those who have understood America and those who have not understood it.

The Caillaux Mission, sent in September, 1925, to Washington to negotiate the settlement of the debt, is a typical example of the understanding and the misunderstanding of America. Six of its members, outside of the head of the delegation, had never crossed the Atlantic: Senators Bérenger, Chapsal, Dausset; Deputies Bokanowski, Lamoureux, Auriol. Three have come back having understood the American spirit splendidly: Senator Bérenger, Senator Chapsal and Deputy Bokanowski, today Minister for Commerce. All three are in favor of ratification. The three others have completely misunderstood the American spirit, and are against ratification. As for the chief of the mission, M. Joseph Caillaux, his case is more complex and curious. I do not think that he has really understood America, but with him it is not a question of intelligence, for he is exceptionally intelligent: it is a question of temperament. M. Caillaux is an aristocrat, and aristocrats will never understand America. The country of their choice will always be Great Britain, which is the oldest aristocratic nation in the world, and the democratic American climate will never have any attraction for them. However, although he may not have understood America, M. Joseph Caillaux has understood the necessity of liquidating the American debt: and very courageously, very vigorously, he has recommended his fellow citizens to ratify the agreement he had not been able to conclude and which Ambassador Bérenger has concluded.

Matters being thus, a clash was inevitable in France concerning the agreement of Washington between those who know and understand America and those who do not know nor understand her.

Those who neither know nor understand America particularly protest against the long period of time over which the payments have been spread out. "We shall

have to pay an annual tribute to America," they are complaining, "during sixty-two years; that is, during three generations. Our children and our children's children will have to pay the tribute. How can we enter into such an agreement? And what will happen if the agreement fails to be kept?"

In vain, those who believe they know and understand America object that nothing will happen. In vain they quote the declaration made by Secretary Herbert Hoover to Senator Chapsal, during the negotiations of 1925: "Should any unforseen obstacle prevent you from keeping your engagements, you will not keep them, that is all. You will then find yourselves exactly in the same situation you are in today. What do you risk? We shall not go and bombard your coasts any more than we go and bombard them today. . ." In vain, they quote the formal declaration of Senator Smoot, on April 1, 1926, in answer to a question of Mr. Borah: "If an unforseen event prevents the debtor nations from fulfilling their obligations, we shall not have the right to force them. Everybody agrees to this." The average Frenchman answers: "Well, if everybody agrees to this, let us write it down on paper." The average Frenchman believes only in what is written down in black and white. He has been trained to that from his youth. He belongs to a race where the law is written down since centuries and centuries. He belongs to a country where in the remotest village there is a notary whose business it is to draw up in a solemn contract the smallest transaction. The average Frenchman believes that, when a written engagement has been subscribed, nothing in the world can suspend the engagement, and therefore he believes, sincerely, honestly, that during sixty-two years his descendants will have to work and pay America, whatever may happen. Reciprocally, he does not believe in verbal promises, even when they rest on good faith and good sense, and, like Talleyrand at the Congress of Vienna, to those who tell him, "It goes with-

out saying," he answers: "It will go much better in saying it and writing it."

Then, the average Frenchman is a great retorter and arguer. He has not forgotten that the difficulty of transferring huge sums of money from one country to another has been if not discovered at least brought to light by the American experts of the Dawes Commission and has been opposed to the French claims of reparations. He knows by heart that passage of the Dawes report:

> We estimate the amount which we think Germany can pay in gold marks by consideration of her budget possibilities; but we propose safeguards against such transfers of these mark payments into foreign exchange as would destroy stabilization and thereby endanger future reparations.

And he asks: "Where are the safeguards against transfers of our franc payments into dollars? Why should not our stabilization be destroyed by our payments as well as German stabilization by German payments?"

On both points, safeguard in case France's capacity of payment would be altered, safeguard in case France's payments would destroy the stabilization of her money, the average Frenchman is practically unshakable. He refuses to listen to any argument. The boiling M. Franklin-Bouillon, president of the Commission for Foreign Affairs at the Chamber, symbolizes him very well, when he exclaims: "I will overthrow two ministries, ten ministries if need be. I will cling to the tribune and they will have to drag me away by force, rather than permit the ratification of the abominable agreement of Washington."

Of course, there are a great many other elements in the French resistance to the ratification. There is the sentimental element: "We have fought side by side for the same cause; is it possible that our account is an ordinary account?" There is the popular element:

"We have to collect money from Germany: if we can't collect it, how can we pay the United States?" There is the human element: "The Americans are rich and we are poor: can the rich man not overlook the debt of the poor man?" There is the political element: "If we ratify and ask for some kind of credit, we put ourselves under America's financial domination: what then about our economical independence?" But the two principal strongholds are those which I have depicted: the fear of being submitted during sixty-two years to an obligation which it is impossible to fulfill; the fear of seeing the franc fall if too large sums are transferred to America.

Now, it must be admitted that, in his resistance, the average Frenchman has received encouragements from the outside: first of all from Great Britain; then also, strange to say, from some Americans.

British propaganda has been most active and most successful in France during two years. It has accomplished that marvellous and extraordinary feat that, although Great Britain has obtained proportionately higher payments for her debt than America, although she has not included the settlement of the commercial debt in the total of the political debt, although she has found the means of retaining the £53,500,000 sterling of French gold, which had been sent over as a guarantee during the war, in the safes of the Bank of England, nobody in France discusses the agreement of London, whereas everybody discusses the agreement of Washington; and no one bears a grudge against England, while everyone bears ill will towards America. If you point out to the average Frenchman that Great Britain with a smaller bill is going to get more money than America, and that Great Britain is going to keep forever one-third of the gold reserve of the Bank of France, he will answer: "Yes, but it is not the fault of the British. They have been pressed hard by the Ameri-

cans and they have always stated that, if America had not claimed their money, they would not have claimed ours." A masterpiece of British propaganda, indeed!

Several Americans are also, I am sorry to say, responsible for the present French frame of mind. There is the American of Paris, who is generally more pro-French than the French. He began by assuring his French friends that never, never would America collect her debt. He went on to say that "he would be ashamed of his country if it were to collect the debt." He went even so far as to advise the French to refuse to pay and, the day following the agreement of Washington, when the ink of the signatures of Secretary Mellon and of Ambassador Bérenger was not yet dry, Mr. Walter Berry, ex-president of the American Chamber of Commerce, was heard publicly to state that "France having signed such an agreement, was on her knees." Then, there is the American of New York or of Philadelphia, who spends his summer vacations in France and who, this summer, has come over especially to give his good advices to the French debtor. The advice was generally "Let the time pass. Wait until after the November election. Make such and such a reservation on such and such a point. We shall help you. Mr. Somebody will make a speech at his club to explain the French point of view, and Mr. Nobody will deliver a series of lectures to press the cancellation of all foreign debts."

Then, there is the American lawyer, who is desirous of having a rank or a promotion in the Legion of Honor, who writes to President Poincaré, or to a French colleague, to offer his legal advice on the settlement and indicate the best points on which the French Parliament could fight the ratification. Then, there is the American Democrat, who whispers in the ear of his French guests: "The Republicans did it. Wilson would never have done it. If we come back to power, we shall wipe off the slate."

How, in face of such assertions and of many others, would the average Frenchman be able to see the truth? And how can the exceptional Frenchman, who knows and understands America, make himself heard by his fellow citizens when he urges them to ratify the agreement of Washington and to have confidence in American fairness? He is confronted not only by national ignorance, but also by outside intrigue. He sees thrown in his face such declaration of such an ex-American minister, or of such an American banker, or of such an American opposition newspaper. And naturally he is told that he is more American than the real Americans.

There will be an end to all this muddle and this game. The cloud will pass, as do all clouds. The sun of friendship will shine again, because the sun always shines after the clouds have passed away. Those who in France love America, because they know her, because they understand her, have no fear of the future. They remain unshaken, unmoved in their love of Washington's and Lincoln's fatherland. They know that France, their own country, may be fooled for a certain time, but not all the time. They know that in Voltaire's and Lafayette's fatherland the spirit of wisdom and acuteness always prevails at the end.

Meanwhile, if they could address a prayer to their American friends of America, they would say: "For God's sake! Leave foreign matters outside of your party disputes. Do not let Europe believe that your national policy will change if your political administration changes. Do not let Europe believe that your adhesion to the League of Geneva, or your cooperation with the Court of the Hague, or your decision regarding the foreign debt, depends on the victory of such and such party. Do not invite Europe to play on the American electoral chess-board. It is a bad service that you render her and that you render to yourselves. Foreign questions are delicate enough already without their being thrown into

domestic electoral battles. If you want to understand Europe well, make yourselves at the same time well understood."

To make oneself well understood was, as Foch said a few days ago, the secret of life of nations just as it is that of individuals. But to make oneself well understood by others, one must first understand oneself perfectly.

LEVINSON PLAN FOR DEBT SETTLEMENT *

PRINCIPAL AIMS OF THE LEVINSON PROPOSAL

As analyzed by persons who have studied the Levinson plan, it would be designed to—

1. Settle the question of international debts by removing debt and reparation payments from the political into the ordinary financial field.

2. Discharge the United States war debts quickly and in cash, thus lightening the taxpayer's burden and providing, if deemed desirable, funds for a large revolving credit to be placed at the disposal of farmers for financing the marketing of crops.

3. Pacify Germany by fixing the total period of reparation payments, reducing the annual sum, eliminating financial supervision under the Dawes plan, and restoring German sovereignty in fiscal matters, thus clearing the way for the evacuation of the Rhineland by the Allies as provided in the Versailles Treaty.

4. Cancel all debts between European Allies, while providing Great Britain, France, Italy, Belgium, and the other creditors with a substantial annual sum which they can use for their own economic restoration.

5. Dissipate the bad feeling toward the United

* By S. O. Levinson, originator of the proposal for the outlawry of war. *Congressional Record.* December 12, 1927. p. 519. An analysis of the Levinson plan, reported in more detail in the *Chicago Daily News* of December 2, 1927 and in the *New Republic* of December 7, 1927.

States on the part of the European debtor states which the payment of their debts to us over a period of sixty-two years is sure to foster; prepare the way for intercontinental understanding by removing the chief incentive to quarrels; nullify all further criticism of the United States as an "international Shylock."

6. Found a complete financial settlement on a solemn international pledge to "outlaw war" for half a century or more, and provide impoverished and fearful states with security, thus allowing the necessary period for the codification of international law, for progressive disarmament, and for the peaceful discussion of outstanding political differences.

Summary of German Loan Plan Offered by Attorney Salmon O. Levinson

World loan to Germany	$6,000,000,000
Interest rate 5½ per cent per annum. Sinking fund 1½ per cent per annum. (Sinking fund, kept alive, will pay off entire principal in 28 years.)	
Pay off lien of Dawes plan reparation loan	200,000,000
Total	5,800,000,000
Pay United States in compromise and discharge of all war debts owing to her	4,000,000,000
Pay United States in repayment of cost of American Army of Occupation, 1919 and 1920	250,000,000
Total	4,250,000,000
Balance	1,550,000,000

This balance of $1,550,000,000 to be used for stabilization of currencies, for equitable adjustments with European nations having specific claims to German reparations, and for the necessary cost of the loan. The unused balance, if any, to be applied in reduction of the loan.

Great Britain to cancel all debts owing to her by her Allies, amounting to about $7,000,000,000, so that all allied and interallied government debts will be wiped out.

The nations to sign a general treaty renouncing war, as a method of settling their disputes, for the next sixty-two years, and agreeing to set up a judicial system to supplant the outworn and destructive war system, as an epoch-making experiment in world peace.

Drastic limitation of armaments, both land and sea, through a conference of all nations based on the sixty-two-year treaty outlawing war.

Treaty of Versailles to be modified in accordance with the needs and spirit of the foregoing proposal.

LAFAYETTE, WE WANT OUR MONEY[72]

The man on Main Street (and his representative on Pennsylvania Avenue) seems to view the French debt like the $5 he lent his brother-in-law several years ago. In the name of all that is good and solvent, why shouldn't it be repaid? It was a loan, not a gift. Folks that borrow ought to pay up, and everything else is bolshevism. Thus the man on Main Street.

To the Frenchman, it is not so simple. He never got any $5. Whatever he borrowed he immediately paid out again to American citizens for war supplies. Those American citizens made themselves rich selling the war supplies—so rich that they have to pay a surtax on their incomes. Those same citizens are now endeavoring to have the debt paid so as to reduce their surtaxes and thus further augment their profit. Hence the Frenchman sees the demand that the debt be paid as an effort to make the widow and children of the defender of Verdun pay for the uniform in which he was buried.

Such sentimentality is to be deplored. Business is business. To be sure the money was spent to weave horizon blue in Massachusetts woolen mills and the price was, to be sure, adequate. And it is doubtless true

[72] By Allen S. Olmsted, 2nd. *Nation.* 121: 723-4. December 23, 1925.

also that either the families of French veterans or the veterans themselves must pay most of the debt; for who else is there in France to pay taxes? The Frenchman's premise, therefore, may be true and his conclusion may follow from his premise; but we are a practical people and we do not like this sentimental manner of stating conclusions. It would be more businesslike to say that debts are debts and ought to be paid. In a business transaction there should be no sentiment.

Our relations with France were on a business basis. We were partners in a business venture. The object of the business was to defeat the German army. The mode of transacting that business was to discharge missiles from guns, and that required both missles and men to shoot them. We furnished most of the missiles and the French most of the men. All of the missiles and many of the men were destroyed. We shall expect the French to pay for our missiles; as for their men, why —Oh, yes, their men, or at least the ones who weren't destroyed, are the ones who are to pay for the missiles.

When America joined the partnership in April, 1917, it was her effort to get the men and munitions to the line at the earliest date possible. The munitions got there about a year before the men. If the men had reached there as soon as the munitions, they could have fired the shells. In that case we would have paid for the shells and also for the white crosses and war-risk insurance of the men who were destroyed while shooting them. But our men did not get there so soon, and to our partners fell the job of repelling the enemy and of paying for the ammunition with which they did that job.

The writer was one of "our boys"—a member of an American regiment which operated light railways for the British army. On March 24, 1918, we ran a Baldwin locomotive off the track into a shell hole in order to keep the Germans from capturing and using it. That

locomotive typifies the whole inter-allied debt. Built at Eddystone, Pennsylvania, it was sold to the British government at a price which afforded American workmen good wages and the Baldwin stockholders good dividends. The British government "paid" for it out of money borrowed from the United States, which is another way of saying that the United States paid for the locomotives and the British government promised to repay the American government. The American government had itself borrowed the money from certain of its citizens, and it is at this minute taxing those citizens and others, including me, to pay interest on the money borrowed. It says to the British government: "Come, now, remember your promise. Tax your citizens more in order that we may tax our citizens less. For so it was agreed."

Yes, it was so agreed, and the net effect of the agreement is that the survivors of the British third army are being taxed more in order that we, who were attached to that army, should be taxed less. We are dunning them to pay for the locomotive we dumped into the shell hole. It sounds absurd; it is absurd; and to one who recalls the circumstances of that terrible night in March, 1918, it also seems shabby. But pass the shabbiness. When the reason has been found why my British companions in the flight from the Somme should be taxing themselves to pay me interest on the cost of the locomotive we both abandoned, the reason will also be apparent why the children and the grandchildren of those soldiers should tax themselves to pay the interest on the same locomotive to my children and grandchildren.

That reason is short and simple: it was so agreed. If the French debt is funded to extend over sixty-two years, as the British and Italian debts have been, the grandchildren of Joffre's army will be paying the grandchildren of Pershing's army, not because there is a good reason why they should pay, but because Clemenceau and Caillaux promised Wilson and Mellon that they

would pay. For such is the law; what governments promise, their citizens unto the third and fourth generations must do.

The law is in this respect based on a legal fiction. It decrees that what "France" borrowed in 1917, "France" is bound to repay sixty-two years later just as though the borrower of 1917 and the repayer of 1979 were identical. But how many of the French taxpayers of 1979 will have had anything to do with the contracting of the debt, or with the war for which it was contracted? As for the creditor nation, it has redrafted its immigration law so as to encourage immigration from those noble Nordics, our former enemies. There are already in this country many German soldiers and there will be many more. These Germans, and their children, are among those who are entitled to exact payments for the locomotive captured by the German army in 1918. Thus shall the "interallied" debts be paid.

Right there is the difference between the inter-grand-children-of-allies debt and the $5 which the man on Main Street lent to his brother-in-law. In the man-to-man transaction there is no legal fiction to say that the borrower and his son are the same person, and any lawyer in Gopher Prairie will tell you that if the father dies without paying, you cannot collect the debt from the son. But international law is more severe. That is worth remembering. When we are asking the next generation of Frenchmen to pay the debt which international law places on them, we are asking them to pay a debt which neither the law of France nor the law of the United States would put on them if their fathers had borrowed in their personal rather than in their governmental capacity.

The legal fiction! I shall enter on no encomium upon it; it needs none. All modern business is built around the fiction that a corporation is a "person." The Su-

preme Court's power to nullify legislation springs from the fiction that the Constitution is the will of the people, more immediately and directly expressed than by an act of Congress. The legal fiction was invented in an effort to reconcile justice with logic. When it ceases to do justice, it should cease to circulate as good fiction. We would do well to reconsider the fiction that "France" borrowed and "France" must pay in the light of whether it is either wise or just to require Frenchmen to pay money into the American Treasury.

Mr. Owen D. Young, in discussing interallied debts, draws a picture of General Pershing returning to the tomb of Lafayette. He stands at attention, salutes, and declaims: "We are here, Lafayette; and this time we want our money."

Why drag Lafayette into it? Why not! Lafayette had as much to do with the lending of the money as did the people who will be asked to pay it back half a century hence.

OUR OSTRICH DEBT POLICY[73]

Secretary Kellogg's allusion to the international financial policy of the United States in his recent New York address furnishes the occasion for an estimate of whither that policy is leading. He stated that cancellation of war debts was impossible and would be of no advantage either to debtor or creditor. He stated that the capacity of the debtor to pay had been considered, so far as possible within the limits of time of payment and interest rates allowed by Congress. He stated that the government was exercising an informal and voluntary oversight over private loans abroad, refusing to pass on their business merits but merely saying that certain loans were not in the public interest "such as loans for armaments, loans to countries not making debt settle-

[73] From *New Republic*. 45: 149-50. December 30, 1925.

ments with the United States, or loans for monopolistic purposes." How honestly is this policy being carried out, and how adequate is it?

Answers to these questions are of supreme importance. Finance doubtless seems unreal to most people, as remote as it is abstruse, but it is the very nervous system of the world capitalist organism. A government in debt must tax or repudiate; a nation in debt must export or defraud; an industry in debt must produce or fail. Disorders of currency, taxation, production and consumption arising from financial confusion decide the fate of forms of government, disturb international comity and stalk like ghosts beside every workman's table. To understand the main currents of finance is the prime necessity for those who wish to influence the future.

Our dealings with Italy furnish the most recent test of the administration's policy. We have made a debt "settlement" with Mussolini's government. This settlement provides for small manageable payments in the present, and for very large and impossible payments in the latter half of the century. Those who negotiated the agreement cannot have expected it to be carried out. No government could bind its people to pay huge sums at the end of sixty years, no government can accept such a pledge from another with any confidence in its validity. It is understood among the informed that the pact must be revised long before the large payments come due. What, then, was the motive for the settlement? Mussolini's government wants, not to pay, but to borrow more money. Italian industry, hampered by a high interest rate incidental to stabilizing the lire, wants liquid capital at less cost. Italian banks, with large frozen credits, want foreign source of credit opened to them. Our negotiators want to present a settlement to Congress and an example to the recalcitrant French. They want this settlement—however lacking in reality—to correspond technically with the demand of

Congress for a certain interest rate. They want to facilitate the lending of money to Italy by the bankers who want to handle the loans. Result—Italy pays us $5,000,000 cash and some worthless promises; we pay her $100,000,000 in a new loan.

This exchange is a dishonest and dangerous expedient, ultimately damaging to both nations. It adds to the obligations of a country which already has assumed obligations impossible to pay. It marks the weakening of the most praiseworthy achievement of the Fascist dictatorship—the stoppage of inflation through the cessation of borrowing. It extends American credit on a risk high both economically and politically. It renders immediate assistance to the most obnoxious tyranny, the most jingoistic nationalism in the world, and gives American investors a stake in its perpetuation. It fastens a legal bond on future generations of Italian workers, which at whatever sacrifice of wages or access of toil they cannot possibly fulfill, and which may be used to the discredit of any post-Fascist government which our administration or bankers may not favor. The present Congress can do no greater service to humanity than to expose and repudiate this sinister arrangement.

We greatly prefer the failure of debt negotiations with the French to any such arrangement as the Italian. Nevertheless the American policy leading to this failure has potentialities of as much trouble. Apparently we are ready to negotiate the same sort of unrealistic agreement in this case. Any governmental examination of French capacity to pay which may have been made ignores the realities of the situation—the lack of a French budgetary surplus out of which payment may be appropriated; the crushing burden of the budget deficit, which already threatens the stability of the Republic; the uncertain size of any possible French export surplus under normal conditions such as would make transfer possible; the danger to both nations of extending

further loans on the basis of a formal but deceptive settlement. The *New Republic* did not favor canceling the French debt on the sentimental grounds of a balancing of war sacrifices and benefits, or as a means of enabling France to continue a disturber of the peace of Europe. But an effort to collect the last cent from a France which has gone to Locarno, which is struggling to preserve representative government, and in which any government in order to pay must impose unwonted sacrifice on a working population and a peasantry with a standard of living already below our own, does not seem to us a desirable American policy.

In the cases of Italy and France the early acts of the debt tragedy are still being performed; in the case of Germany we have reached a later one. Through the Dawes settlement German currency has been stabilized and the budget shows a balance. The channels of payment from the government and from industry to the Reparation Agent have been laid out. The government remains republican and relatively stable. The official assumption is therefore that reparations will be forthcoming. On the basis of restored stability a flood of external loans has been extended to German government and industry within the last year. Those recorded to date total about $525,000,000; it is estimated that those unrecorded total $400,000,000 more. The lion's share of these loans originates in the United States. The world has thus added a principal of nearly a billion dollars, at high rates of interest, to the burden of payments from Germany which are already expected by way of reparations.

But external payments cannot be made unless Germany exports more than she imports. Before the war she imported more than she exported. She was enabled to do this because of her own foreign investments—which have now almost vanished—and the fact that she was enabled to do it safeguarded a reasonable standard of living for her workers and a surplus for the develop-

ment of her industry. During the past year her import excess has been approximately three times as large as it was before the war. This arose from the flood of foreign loans. It has helped her develop her industry, but in spite of it the real wages of her workers have remained appreciably below the pre-war level. And because of it no net payments either of reparations or of interest or principal on the loans have been transferred outside of Germany.

As long as we continue lending more to Germany every year than we receive from her in reparations or interest, we can maintain this state of affairs. That is, we can subsidize the payments which Germany is supposed to make to us, and we can in addition subsidize her internal life. But obviously that is an impermanent state of affairs. Some day in the not distant future we shall expect a turn of the tide. New loans will subside; Germany will be expected to pay both governmental and private creditors. What then? It may be that she can develop a sufficient internal surplus to pay. It is highly doubtful whether she can make enough exportable goods or find enough markets for them to transfer the payment. In so far as she does so, she must impose a lower standard of living on her own population and make impossible the use of any surplus for internal social advancement. We shall be trying to collect either what is impossible to collect, or what the Germans can spare much less easily than we.

The "we" is used advisedly. Though the bulk of the immediate reparation payments go to France, Belgium and England, France is being asked to pay, and Belgium and England have already agreed to pay, at least as much to us as they will ever receive from Germany. That, if nothing else, makes the utmost possible pressure on Germany inevitable.

A foretaste of the possible international result was furnished the other day in the French Chamber of Deputies. The Communists are a bitterly hated section of

that body. Yet when Cachin, the Communist leader, made a speech in which he attacked the economic imperialism of the United States and warned his countrymen against a financial thraldom to that nation more binding than any they had rendered to their own capitalists, he was applauded by virtually the whole Chamber. This happened before France had felt an ounce of the economic pressure we intend to exert if we can. Similar outcries have already come from Belgium.

In sum, the whole effort to collect the great reparations and debts from European nations which before the war had little or no exportable surplus means either an irritating and deceptive attempt to accomplish the impossible, or success in levying a tribute upon great populations which they can ill afford and will be sure to resent. We do not mean to imply that European industries do not now need our loans and should not, under proper circumstances, receive them. Indeed, the need for such loans doubly requires a thoroughgoing revision of our policy in attempting to validate the underlying war obligations, which were utterly unproductive, which unlike the new loans do not represent any development of ability to pay, and against which a whole capitalist economy will crack and strain until either they or something else breaks. It is high time for American opinion to hasten its inevitable reconsideration of this whole matter. We shall in later issues discuss in some detail what a desirable revision of policy would involve.

THE EFFECT OF THE DEBT SITUATION UPON EUROPE'S RELATIONS WITH THE UNITED STATES [74]

. . . And what are the people of the United States doing? We have firmly announced that the principal amounts due our government must be paid and almost in

[74] From the article by Ernest Minor Patterson. *Annals of the American Academy of Political and Social Science.* 126: 32-3. July, 1926.

the same breath have declared that we shall interpose every conceivable obstacle to payment. Only with commodities and services can these payments be effected. If we want payment we surely ought to be consistent and at least work out some plan for receiving whatever can be offered. Instead of this we have raised tariff barriers indiscriminately to the highest level in our history. We have built a merchant marine and even consider subsidizing it because we prefer to render this particular service to ourselves. We keep out foreigners who might work for us and remit something to Europe that would ease the strain. We wish our own financiers to pocket commissions rather than have them earned in London or in Paris. We take pride in expanding our exports but look with more or less regret upon a growth in imports. Ignoring for the moment the wisdom of any one of these policies notice their inconsistency.

And what results have we secured? Just about what might be expected. Results are mixed. Certain payments are being made by certain foreign governments to our government. But with the exception of Great Britain these payments to date are small. And, also with the exception of Great Britain, the countries making the payments are borrowing the funds with which to do it. In some cases the funds are borrowed by the foreign government. Even though debt payments cannot be directly traced to these funds the borrowing governments at least have an increased supply of dollars and are indirectly helped. In many cases the borrowing parties are not the central governments but state and local governments and private corporations. But no matter how borrowed, these funds are an increased supply of dollars and lessen the tension on the exchanges.

That the burden of making the proposed payments is important for the debtors seems clear. It will add appreciably to their taxation and funds raised will be difficult to transfer. But that is the debtors' side. How

about the creditor? Will the United States feel the strain?

To date we have experienced no difficulty although Great Britain is regularly meeting its obligations. But this is easily explained. In spite of British payments the movement of goods has been outward. What the British and a few others have paid has been far more than offset by additional loans floated in the United States. As credits here become exhausted new loans are floated and the outward flow of goods is maintained.

Yet this has certain limits. The amount of interest and dividends due each year will become larger and the pressure of incoming payments will perhaps be so great that it cannot easily be offset by new loans. If these payments are actually made—and this has been our assumption—we must accept goods and services of a value larger than that of our exported goods and services. We shall have an import balance of trade.

But what of it? Is this necessarily a bad thing for us? Not at all. If the change does not come too abruptly or if the incoming commodities and services do not compete too closely with our own output, the strain should not be serious. The actual amount involved is not so large a percentage of our total trade as to be important. Moreover the war ended seven and one-half years ago and payments are to increase gradually.

But our optimism on this point should be tempered. In addition to the public debts we are considering there is the interest due on other foreign loans now said to amount to over $10,000,000,000. This means $500,000,000 or $600,000,000 each year in addition to the amounts due our government or a total of $700,000,000 or $800,000,000 instead of the smaller amount we have been discussing.

Then, too, trade may not be thought of as buying and selling things in general. Some have argued that the

amounts are after all only moderate and can be readily handled with invisible items and by triangular trade. But trade is the purchase and sale of things in particular and there is the chance that growing imports may be heavily concentrated in some one commodity. Not long ago the National Industrial Conference Board stated that nearly 60 per cent of our agricultural imports in 1925 were in direct competition with the products of the American farm. . .

DEBT SETTLEMENTS [75]

The problem of the collection of war debts as it is set for our debt commission is the problem of getting money from nations which do not regard our claims as based upon anything but a technical legal ground, whose own financial and economic situations are desperate in the extreme, whose only incentive to agree to pay is the opportunity to get new private loans not otherwise obtainable. There is no way, as I have said, of compelling payment. We can only keep on insisting and in the end accept whatever, for reasons of their own, the debtors decide to pay us.

Small as are the Italian and Belgian obligations as funded, when contrasted with the sums actually represented by the original borrowings, the fact remains that they constitute exceedingly heavy burdens. The Italian debt, for example, will not in my judgment ever be paid as contracted, unless some miraculous and unforeseen expansion of prosperity shall entirely transform the relative importance of the annual payments to national income. All the debt settlements, the British included, are no more than experimental contracts. None of them can be paid unless the prosperity of the world as well as of the contracting powers expands almost beyond reasonable calculation.

[75] From an article by Frank H. Simonds. *American Review of Reviews.* 73: 155-8. February, 1926.

Our people regard the debt arrangements as settlements in the positive sense, as permanent settlements, but every expert at home and abroad knows that they are not merely conditional upon future economic developments, but also upon political contingencies which cannot be foreseen. Will the next generation of Britons, Italians, Frenchmen, consent to live at a lower standard, deprive themselves of things which we regard in the United States as necessities, simply to discharge a debt incurred by their fathers and seeming to them neither just as a debt nor warranted as to collection by the comparative conditions of debtor and creditor.

It is necessary now to make debt settlements on terms which are possible, and the only possible terms are those which the debtor will accept. If we ask too much, as the French experience showed, there is no settlement. But agreements are necessary because debts and reparations are obstacles to the restoration of world prosperity and world industry. Five years, ten years hence, all the agreements may have to be materially modified, because none of them conforms to the realities, political as well as economic, of the world of that moment.

It was always absurd for Europeans and for American friends of European nations to urge cancellation, for the simple reason that no government can agree to assume for its people burdens which belong legally to others. It was just as absurd for the "last red centers" to insist upon integral payment, first because such payment was physically impossible, and secondly, were it physically possible, there existed no method to enforce payment. Finally, it was preposterous to imagine that because a nation owed us money we could, by scaling down the debt, influence that country's policy in the matter of armaments, colonial establishments, or anything else. Much less could we persuade Italians, for example, to dismiss Mussolini because we were prepared to demand less on account of our debt from another government.

Our stake in the game from the beginning was represented by the sum we could persuade our debtors to pay us, while not permitting our demands to rise so high as to prevent settlement and delay the restoration of international trade and commerce. We had nicely to appraise the relative values of old debts and new business. But we had to learn that in the end what we got in debt settlements would not be all or even half of what we had loaned. What the victorious Allies, with armies of occupation and irrestible force could not accomplish against a helpless Germany, namely, the collection of reparations in any relation to the demands, we certainly could not hope to accomplish in the matter of debts and with our former associates. But insistence in both cases had the same result; it postponed recovery, it blocked the pathway of ordinary international exchange.

Any one who desires to appreciate the real fact about debt settlements has only to look at the scale of payments under the Italian agreement. This year, each year for the next five, the Italians will pay $5,000,000. Sixty-one years hence, almost three-quarters of a century after Italy entered the World War, the annual contribution is to be $79,000,000, almost sixteen times as large. Twenty-five years hence the annual charge will be $22,000,000. What will happen, of course, is that, in all human probability, by the end of 1950 our own national debt will be very largely extinguished. We have already made striking progress in this direction. Then, without adding new taxation to meet foreign debts, we can consider the readjusting of rates of payment.

The debt problem being insoluble in present time and given present states of mind, the financiers are striving to eliminate the evils incident to an absence of settlement by providing that form of present agreement which, since it calls for little present payment, and no payment in excess of present benefits, is acceptable to the debtor. Thus the real question of debts, like that of reparations, is adjourned until such time as the world, having returned

to normal conditions, is capable of dealing with these questions rationally. Then either world prosperity will make the agreements seem possible, or world common sense applying the facts that exist will agree upon revision.

NEW DISCUSSIONS OF OLD DEBTS [76]

The last month has been entirely dominated by the economic—as contrasted with the political—problems of international relations; and the economic aspect has been mainly confined to new discussions of old debts. The settlement in Washington of the Belgian war debt to the United States; the tentative and wholly illusory Anglo-French agreement at London, dealing with the war debt of the French to their British Ally; the forthcoming negotiations in Washington of both French and Italian debts to us; finally, the publication of the first report of the Agent-General charged with the administration of the Dawes plan—all these recent episodes have drawn attention to the circumstances of the financial liquidation of the war.

Since, moreover, when this article reaches the reader, there is every prospect that negotiations will be going forward in Washington between M. Caillaux and our own Debt Commission for the settlement of France's obligations, I have thought this month to concentrate my comment upon the general subject of international debts, which obviously remain the outstanding problem of the postwar period. I shall give only passing notice to the Anglo-Franco-German security pact and to the meeting at Geneva of the Assembly of the League of Nations, a meeting which is patently dominated by consideration not of the subjects immediately in hand

[76] By Frank H. Simonds. *American Review of Reviews.* 72: 383-91. October, 1925.

but of the prospects of German entrance and of the League's relation to any possible security agreement.

Harking back to the question of the debt, the natural point of departure is the American relation to the whole debt issue and the American policy with respect of the debt owed to us. Our position, it must be recalled, is unique, that is to say, we are the only nation which owes nothing and is owed by many, while the Germans are the only country which, having no claim on anybody, owes many.

With a national debt of $21,000,000,000, we have as an offset the obligations owed to us by ten or a dozen countries which amount, roughly speaking, to $12,000,000,000. That sum represents original principal and the interest accrued thereon. The relation of these sums owed, to our own debt, is plain. We are paying interest on all the sums which are owed to us, because they were in turn raised by us from our own people. We borrowed from our own citizens and loaned to our Allies. We have paid our own citizens, but our Allies are only beginning to pay us.

The policy of our government has steadily been that the loans must be satisfied, that all suggestion of cancellation or large reduction was to be repulsed. Two years ago, moreover, the present British Prime Minister, Mr. Stanley Baldwin, made with our Secretary of the Treasury, Mr. Mellon, the so-called Baldwin-Mellon agreement, which was accepted then and since by our government and people as the standard for all debt settlements to be made. Under that system some $5,200,000,000 of the outstanding $12,000,000,000 debt has been funded.

The terms of the Baldwin-Mellon agreement were, in brief, that the British should exchange, for their note of hand for the sums borrowed and the accrued interest (which had technically run at 5 per cent), a contract which fixed the total of indebtedness at $4,600,000,000.

That sum represented a material reduction in accrued interest, and bound them to pay us for several years at the rate of 3½ per cent on this total and thereafter at 4 per cent, over a period of sixty-two years. Of this 4 per cent, 3½ would represent interest, and ½ of 1 per cent would be a contribution to the sinking fund to extinguish the principal. By virtue of this settlement, we have received from the British payments which are continuing regularly, amounting now to $161,-000,000 annually and presently to rise to something like $184,000,000.

Since the United States government is itself paying 4¼ per cent on the Liberty Loans which supplied the funds for these British loans, we are actually paying more in interest than the British have paid or will pay in interest and sinking fund alike. But our Treasury Department has calculated that in due course of time our Liberties will be refunded at a lower rate of interest; and in the end the total paid by us to our own bondholders and the total paid by the British to our Treasury will be approximately the same. It is well, however, to keep this fact in mind in view of European criticism of American requirements.

This same method of settlement has been already applied to four other nations—namely, Poland, Finland, Hungary, and Lithuania—whose indebtedness amounted in the aggregate to approximately $200,000,000. Since in all cases these latter loans were postwar, and the proceeds applied by the borrowers to peaceful reconstruction destined to produce revenue, no question was raised by the debtors. Of the four, also, only Poland, with a debt of $178,000,000, was called upon to make any considerable effort in order to pay.

When the Belgian Debt Commission came to Washington, it frankly sought to obtain better terms than the previous applicants. In this purpose, it was ultimately successful, for the simple reason that it presented

a legitimate case for special treatment. Of its total debt of $418,000,000, the sum of $172,000,000 had been incurred during the war, and at the Paris Conference President Wilson had joined the British and French representatives in the pledge that Belgium, which owed all three, should be permitted to pay in the proceeds of German reparations.

President Wilson's pledge was not binding upon the nation which subsequently rejected the Treaty of Versailles. But quite reasonably our Debt Commission recognized the fact that Belgium had here a claim. It was contrary to the principle we had firmly established that there should be no connection between reparations and debts, so far as we were concerned, to permit Belgium to transfer to us German obligations. But, instead, we offered to forgive Belgium all interest payment on this part of her debt. The balance was to be funded upon the same terms as the British, and, in addition, Belgium was to make a small annual payment to extinguish the principal of the $172,000,000. Finally, as in the case of Britain, we recognized that the present state of Belgian finances warranted easy terms as to immediate payments. As a consequence, Belgium will make small payments in the first years, rising steadily to the annual sum of approximately $10,000,000, which will extend over the sixty-two year period.

In sum, then, we have by our settlements with six nations established in practice the policy that our debtors shall pay over a sixty-two year period at the rate of 4 per cent annually, save for concessions due to their present difficulties, which are expressed in easier payments in the first years. The single broad concession made has been a reduction of the sum of accrued interest by a substitution of a 3 per cent for a 5 per cent rate between the date of the debt and the start of payments.

Thus, while showing ourselves entirely reasonable in the matter of the application of terms, we have stood absolutely firm on the demand for payment in full as to principal, and, in addition, we have asked a rate of interest calculated to cover our own payments on our Liberties. All of which is tantamount to saying that we have adopted the principle that we shall be paid in full, and that our payments shall be without relation to any European complications.

The single moderating principle which we have proclaimed, which might conceivably have a bearing upon the French and Italian cases, is the declaration that the capacity of our debtors shall be the sole basis of terms. But this has obviously meant that we were willing to accept smaller preliminary payments, not that we were willing to consider reduction of the rate of payment on principal or accrued interest which would amount to cancellation of part of the debt.

If the United States has very definitely stood upon the demand that we should get our money back, what has been the European view? And, above all, what has been and is the policy of our European debtors, of whom Britain and France are the chief, but Italy also a considerable client? With respect to us, Britain has already settled her obligation by virtue of the Mellon-Baldwin plan. But, because of the settlement with the United States, the British have formulated a definite policy with respect to their own debtors.

Prior to the American settlement, the British policy was expressed in the famous Balfour note, which was itself an echo of the equally famous Keynes plan for debt liquidation. In sum, the British proposed that there should be a general cancellation of debts and that the United States should blaze the way, to be followed by Britain. But the situations were quite different. We were owed $12,000,000,000 and owed no one a cent. Britain owed us something less than $5,000,000,000 and

was owed \$8,000,000,000 irrespective of her share in reparations. But even Keynes conceded that the actual value of Britain's \$8,000,000,000 claims did not exceed the \$5,000,000,000 owed us.

Thus, the outcome of this cancellation proposal would have left Britain about even, canceling herself a total claim worth no more than what she owed us; and the whole sacrifice would have been borne by us. When we indignantly rejected this proposal, British policy passed on to the second position—namely, that much against British wish and wholly because of American insistence, Britain would have to ask of her Allies and of Germany enough to meet the payments made to America on the debt owed us, that is \$162,000,000 annually, rising in due course to \$184,000,000 and continuing for sixty-two years.

Having declined to be the angel, we therefore were made the villain of the European debt tangle. Britain approached all her debtors with the apologetic explanation that she had been driven to this course by the United States, which had repulsed the British plan of general cancellation.

At the same time, the British took another significant stand. They had asserted that they would only collect, from their Allies and Germany, what was required to discharge the American debt; but since their Allies were also debtors to the United States, they insisted that they should be paid *pari passu* with the United States. In other words, they served notice upon France and Italy that whatever agreement these nations made with the American Treasury would have to be duplicated with the British.

It was with both these principles clearly established that M. Caillaux went to London in late August to discuss the question of the payment by France of a debt which aggregated approximately \$3,200,000,000, in principal and accrued interest. On this sum the British

demanded in advance payments aggregating $100,000,000 annually, and the French were prepared to offer just half that sum. Between the two widely different proposals it proved impossible to find any compromise; and it was not until the conference seemed doomed to break up in a deadlock that there was finally framed the Churchill-Caillaux compromise, which has made so great a stir on both sides of the Atlantic.

By virtue of this compromise, it was agreed that France should pay to Great Britain what amounted to 2 per cent annually upon the principal and accrued interest—that is, upon the debt of $3,200,000,000—for a period of sixty-two years. The French contribution would thus be slightly in excess of $60,000,000 annually, as against the British contribution of $184,000,000 annually to the American Treasury.

Two further conditions were appended to the compromise, which made it obviously little more than a tentative agreement. Mr. Churchill insisted that if later, France should agree to pay the United States at a higher rate, that rate should automatically apply to the British debt. France, through M. Caillaux, insisted that the sum of French foreign debt payments should never exceed the sum of German reparations paid to France. On these points no formal agreement was made, because in reality everything was now contingent upon the Franco-American negotiations.

This Churchill-Caillaux compromise aroused instant and violent protest in the United States, for obvious reasons. The basic principle of our policy was that the debtor nations should pay 4 per cent annually for sixty-two years. The Churchill-Caillaux agreement proposed payments at just half this rate, with the added condition that if Caillaux came to Washington and agreed to pay us at a higher rate, he would have to pay Britain correspondingly.

We were thus placed in the unpleasant position of

becoming collectors for Great Britain of money which the British were prepared to forgive the French provided we showed equal moderation. The French on their part were put in a position of resisting any American demands above 2 per cent with double energy, because every dollar paid us necessitated another dollar for Britain. There was, then, a great deal of denunciation of British sharp practice; and both Churchill and Caillaux came in for round scolding while officially our government made it clear that France could not expect to get the London terms in Washington.

The agreement was criticized in Paris, because it involved payments materially larger than the $50,000,000 which Caillaux had gone to London prepared to offer as a maximum. In London, it was criticized because it fell far short of the $100,000,000 which Mr. Churchill had announced as his minimum requirement. Nevertheless, it was reasonably plain that the compromise would stand, provided a similar settlement were negotiated in Washington, although the British protested against permitting the French to place any condition on their own payment by insisting that French payments to America and Britain should never exceed German payments to France.

Meantime Italy, still in the background, protested that in any event, since she was poorer than either France or Belgium, she could not undertake to pay more than half as much. That is, Italy demanded a settlement on the basis of 1 per cent, as contrasted with 4 for Britain to America and 2 for France to Britain. The Italian claim, too, was addressed both to Washington and London.

British dissatisfaction with the Caillaux-Churchill agreement had its foundation in the perception that with but $60,000,000 coming from France, and certainly no more than half this sum from Italy and the other continental debtors, there was small prospect that German

reparations would bridge the gap between American payments of $184,000,000 and allied remittances of $90,000,000.

The United States, on the other hand, saw at once that if France paid but 2 per cent instead of four, and if Italy's payments were even correspondingly reduced, then there would be no chance of realizing the national policy of making debt payments to us meet debt payments by our own treasury to the holders of our bonds; so that in effect our own taxpayers would be carrying part of the burden due to our loans to our European associates. It was perceived, further, that the fact of this Churchill-Caillaux agreement had made the chances of our collecting in full much smaller, while it had saddled us with a rôle which was, to say the least, unpleasant.

Our own financial experts, to be sure, pointed out with some appositeness that even the apparent generosity of the British was unreal, since they had charged the French debtor 6 per cent annual interest and compounded the unpaid obligations, thus swelling the total on which 2 per cent was to be paid. Nevertheless, it was felt quite accurately that our situation in the Washington Conference was weakened by the London operation and that, in fact, we had been tied into a triangular debt discussion, although we had consistently maintained that neither interallied debts nor reparations concerned us.

So much for the American and British theses; now as to the French: France, like Great Britain, is both a debtor and a creditor and, at least in theory, she is a greater creditor than debtor. She owes, roughly speaking, $4,200,000,000 to the United States, and $3,200,000,000 to the British, or $7,400,000,000 in all. She is owed by her war Allies some $3,000,000,000. She is also entitled to 52 per cent of German reparations, against 22 per cent for Britain. Like Britain, however,

she has so far been unable to collect on her war loans and must regard the Russian portion as a total loss.

Assuming that France were to pay us at the British rate—that is, at the 4 per cent rate, and that she would under the Churchill-Caillaux plan have to pay the same amount to Britain—her annual payments on foreign debt would amount to about $300,000,000. This sum she would have to get in the main from German reparations or else from her own pocket, although she may hope for relatively small payments from her own debtors.

French views as to reparations have undergone many and far-reaching deflations. At first it was conceived that these payments would amount to enough to meet the costs of reconstructing the devasted areas, which now approximate $7,000,000,000, and would also cover the costs of the foreign debts which amount to about the same figure. Today, however, the French have perceived that the sum of German reparations will never be anything like this amount. They have, then, arrived at something like a last position. They now propose to fund their debts to Britain and to the United States, but only with the distinct understanding that they shall never be asked to pay out in debt liquidation more annually than they get from Germany.

This is, of course, only a variation of the British thesis, which is that Britain shall get enough from her Allies and Germany to pay America. What both Britain and France are after is to provide that their foreign debt shall be paid by their own foreign debtors.

If the German reparations were calculated to yield the $500,000,000 which was once on everyone's tongue, the French situation would be comfortable, for France would be sure of $260,000,000 and could safely calculate on getting from her own debtors the remaining $40,000,000 to satisfy her British and American creditors. Even at the 4 per cent rate she could then meet her foreign obligations from her foreign payments. But today it is

obvious that German reparations cannot safely be estimated at more than half this sum. Moreover the British disclose their feelings on this subject by insisting that French payments be without regard to German, while the French stipulate that their payments shall be conditional upon German.

The whole case of M. Caillaux and of France before the United States will be based upon the argument that on a 2 per cent basis France will have to pay to Britain and the United States upwards of $150,000,000 annually, that this is the maximum of French capacity, and that this capacity exists solely on the assumption that Germany can pay as much to France annually in reparations. It will be fortified by the contention that it would be totally unjust to ask France to pay if Germany were by any method, legal or illegal, to escape payment.

Without venturing upon any prophecy, I suggest that it is hard to believe that the French nation under any circumstance would assent to any debt settlement either with Great Britain or with America, which left them bound to pay and even by assumption opened the way for a situation in which, while France paid, Germany escaped all or most obligations. The American argument that France should pay as she can, without regard to anything else, and that France can pay whether Germany pays or not, is perhaps sound, but it certainly ignores the entire psychological as well as political aspect of the situation.

Fundamentally, the position of four nations in the matter of war debts is about the same. The United States owes no foreign debt; but more than half of its domestic debt arises from its foreign lendings. We desire to save our taxpayers the burden of the interest and principal of that debt. France and Great Britain owe and are owed. They would pass on to us the sums which come to them, leaving their own taxpayers with-

out burden for foreign debt. Belgium is in the same situation, for she is assured on the part of Britain and France that they will take German promises to pay, while what Germany pays Belgium will in all human probability suffice to meet Belgian payments to us.

It is only when one comes to the Italian situation that real difference is disclosed. Italy is entitled to 10 per cent of German reparations. But this sum will not suffice to pay her debts to Britain, France, or the United States, to all of whom she owes money. She is also in theory entitled to payments from the Succession states who inherit Austrian obligation to pay reparations. But with Austria and Hungary practically insolvent, and Czechoslovakia and Jugoslavia in difficulties, the prospect of reparations for Italy is not bright.

In the end, Italy is likely to find herself condemned to pay on a foreign debt of around $5,000,000,000 with practically no money coming to her from abroad. Britain, France, and Belgium might conceivably come out even or well-nigh even, if reparations hold up; Italy, the poorest of the lot, has to face the problem of paying out of her own pocket with no prospect of eventual or immediate recovery. That is why Italy is bound to insist upon the most favorable terms, and certain to hold out for large reductions on any scale yet suggested, whether it be the Baldwin-Mellon or the Caillaux-Churchill plan.

All the European maneuvering, however, comes down in the long run to the single fact, so roundly rejected in Washington—namely, that in the main, despite the various intervening steps, the whole matter of interallied debts is inextricably involved with German reparations. In practice, Germany will in conformity with the Dawes plan make certain payments which in the first instance will be divided among France, Britain, Italy, and Belgium, with small remainders for other states.

Britain, having received her share of the Dawes payment, will demand of France and of Belgium payments on their debts, and of course she will make similar demands upon Italy. But France declines to pay either Britain or America more than she gets from Germany. So in reality she will pass on to Britain her payments from Germany to the extent she is obligated to Britain, who will pass these as well as her own German receipts on to America. Belgium will transfer to France and Britain what she gets from Germany less a sum which will cover her American obligations. Italy, while passing on what she gets from Germany, will have to make substantial contributions of her own.

But, aside from Italy, what starts as reparations will be transformed into debt payments; and, on any present estimate of German payments, all of it will ultimately reach the American Treasury without proving adequate to liquidate what is owed us by France, Belgium and Britain, to say nothing of Italy. Thus, in the last analysis, Germany will pay and we will receive, but the other nations concerned will act as no more than transmission agencies.

If, however, Germany fails to pay, Britain will still be bound to pay us, and so will Belgium, Poland, and our other debtors. But France is resolved not to undertake any obligation of a similar unconditional sort. Moreover, if France binds herself to pay us, and Germany fails to pay her, there is a new incentive to France to use force to compel German payment; for France the American creditor always waits.

My own personal view is that a settlement of the French debt to the United States on substantially the Churchill-Caillaux terms would not merely prove about the most advantageous ever available, but would contribute very materially to removing the last real obstacle to general readjustment. To hold out for an integral settlement on the Baldwin-Mellon basis would be

to postpone any adjustment of either the British or American claims upon France, conceivably compromise the security-pact negotiations, and possibly lead to a change in French party government, and to a return to more drastic German policies on the part of France.

If the British have agreed to liquidate a $3,000,000,000 debt on the basis of a $60,000,000 annual payment, the dominating reason is that, although they need the money vastly more than we do they are satisfied this is the maximum of what they can collect; and Churchill has only covered his own political position by insuring himself against the deadly charge that the American negotiators could get more than he could extract from Caillaux.

In any event, it is clear that we are closer than ever before to a settlement of the interallied debt problem, having already disposed of reparations under the Dawes plan. Actually, the final disposition would seem to turn on the success or failure of the French negotiations in Washington.

THE DEBT SETTLEMENT: THE CASE FOR REVISION [77]

Americans have a reputation for plain speaking. They will not, therefore, resent others indulging in this agreeable method of relieving one's feelings. No American who has visited Europe occasionally during the last few years, and who has come in touch with public opinion, can have failed to be impressed by the growing antipathy to the United States. However disagreeable it may be to recognize this fact, it would be folly to ignore it.

No greater calamity could happen to the world than an estrangement of Europe and America, and particu-

[77] By Philip Snowden, former Chancellor of the Exchequer. *Atlantic Monthly*. 138: 400-8. September, 1926.

larly of the two great English-speaking peoples. The destinies of the world are largely in their hands, and not merely good feeling but generous cooperation is essential for the task of rebuilding the shattered world and leading all nations to a higher moral development.

The unpopularity of America in Europe is due to her postwar attitude to European resettlement. Rightly or wrongly, she has managed to create the impression that, when her fear of the German menace was removed, she left Europe in the lurch, devoted herself to taking financial and commercial advantage of Europe's misfortunes, and was concerned only in her own material interests.

This view, so general throughout Europe, and especially in France and England, is, I believe, largely, if not wholly, without foundation. But it exists, and nothing has done so much to give to it apparent justification as America's policy on the matter of interallied debts. It is of vital importance, therefore, that Americans should know how their European debtors feel on this subject.

The nations of Europe see themselves crushed by colossal war debts and burdened by intolerable taxation. For five years Britain has suffered from unparalleled trade depression. At a cost of £100,000,000 a year she has maintained a vast army of unemployed. Her foreign trade, on which she so largely depends, is 25 per cent below the prewar volume. She sees America enjoying unbounded prosperity, capturing her former markets, and keeping her goods out of America by prohibitive tariffs. And all the while America is exacting from her comparatively poverty-stricken debtors a huge annual tribute on account of financial assistance given by America for what her statesmen described as "a common enterprise and a common interest."

I have met Americans who say that they cannot understand why there should be any feeling of resentment in England at the Anglo-American debt settlement. That settlement, they declare, was a voluntary act on the part

of England, and was carried through at our request. That is not the fact. In 1920 President Wilson wrote to Mr. Lloyd George stating that it was highly improbable that the United States Congress would agree to any reduction of the British debt in order to induce Britain to forego debts owed to her by her Allies, or to any reduction of allied debts in order to facilitate a settlement of reparations.

Further, in 1922 the American government addressed a firm but courteous note to the British Foreign Office demanding the payment of accrued interest upon the American debt, and asking that the debt should be funded and repaid by a sinking fund in twenty-five years. It was this demand which called forth the famous Balfour note to Britain's continental debtors.

No self-respecting nation could fail to respond to such an imperative demand to pay her debts, and a few months later the British government sent a mission to Washington to arrange funding terms. America's first request was that the rate of interest to be paid by Britain should not be less than that at which America had to pay for loans. Eventually America conceded slightly more favorable terms, which were embodied in the funding agreement. Mr. Baldwin's impressions of these negotiations were frankly expressed on his return. "The bulk of the people in America," he said, "have no acquaintance with international trade. . . They think that all we have to do is to send the money over."

Under this funding arrangement Britain admitted an indebtedness of $4,600,000,000. She agreed to pay interest at the rate of 3 per cent for the first ten years, and thereafter at the rate of 3½ per cent for the remaining period of fifty-two years, with additional annual payments for the amortization of the debt. In all, Britain is to pay to America over a period of sixty-two years a total sum of £2,200,000,000!

Let us now examine the case for imposing this tribute

of $500,000 a day upon the productive capacity of Britain for a period of two generations. The legality of the debt is not questioned. But it will not be maintained that this debt is wholly of the nature of an ordinary commercial debt. The debt is expressed in terms of money, but there was no cash transaction. The loans were made by America in munitions, food, cotton, and other war requirements. The purchases made by the British government in America, before America entered the war, were paid for by pledging and selling British collateral securities. In this way Britain incurred a debt to her own citizens of about £800,000,000, which is quite apart from her funded debt to America.

It was after America entered the war, in April, 1917, that Britain incurred her debt to America. She had already severely strained her financial strength by large loans to her Dominions and Allies. But for this she would never have needed to ask for credits from America for the war supplies she obtained from there. There is that justification for the contention that Britain borrowed from America to lend to her Allies. But it is not true that the British debt to America was incurred to lend to Britain's Allies. An ambiguous phrase in the Balfour note gave rise to the impression that our debt to America was incurred on behalf of our continental allies.

It is not true that after America entered the war she refused to accept the credit of the continental Allies, or that Britain was required to underwrite the loans made by America to them. This truth has been repeatedly stated by British ministers. If Britain had guaranteed the loans made direct to France and Italy by America, it is certain that she would have been called upon by America to meet the obligation, being the most substantial of the debtors.

In the interests of a right understanding of the position of America in regard to the loans she made to France and Italy, and in view of the widespread impression that she refused to lend to those countries on

their own credit, I am glad to make this statement of the facts, based upon a close examination of the records. It is true that America refused to lend to the Allies beyond the sum of their purchases in America, her reason being that if she did so she would have no control over the expenditure of the money.

The case against America's insistence upon the payment of her loans to her Allies in the war is quite strong enough on the actual facts without importing any questionable contentions into the controversy. That case is that America kept out of the war for nearly three years before she realized that it was to her interests to secure a victory for the Allies; that during that time she made colossal profits out of supplying munitions to the Allies; that by her belated recognition of her vital interest in the Allies' cause she prolonged the war considerably, thus adding enormously to the financial burden of the Allies; that when she entered the war she was not for a long time able to contribute to the military prosecution of the war; that her loans to the Allies, made after her entry into the war, should be regarded as contributions to a common effort; that her financial help to the Allies was a small contribution to the common effort by comparison with the sacrifices in life made by the Allies during the interval in which she was unable to give much effective help in the field; that, on her own contention that "capacity to pay" should be taken into account in estimating the respective contributions to the cost of the war, she is not bearing her share of that cost; that by insisting upon the payment of loans from impoverished countries she is retarding the economic revival of Europe and the world; that by insisting upon the payment from Britain she is preventing that country from forgiving all her own debtors; and finally, that it is not in the ultimate interests of America that she should burden the nations of Europe with this enormous annual tribute to her.

The bill authorizing the bond issue enabling the United States Treasury to extend credits to the allied govern-

ments was introduced into the House of Representatives five days after the entry of America into the war. It was unanimously approved by all parties. Speaker after speaker justified the credits on the ground that "the Allies were fighting the cause of America." Representative Mann of Illinois said, amid the applause of Congress, "We are not prepared to place men in the field. We are not prepared to fight with our army. We are not prepared to do much with our navy. . . But there is one way in which we are prepared to engage in the war. There is only one way in which today we can do more than make our war an academic discussion, and the only way left to us is to help finance those nations who are fighting our enemy. . . I only hope and pray that the aid thus given may be effectual enough to end the war before we send our boys to the trenches."

The debate in the Senate followed the same line. The whole tenor of the speeches there was "The Allies are fighting our battles"; "It will be months before we can do more than lend those who are fighting our money"; "This is our immediate contribution to the war."

The official bulletin issued in 1917 by the United States Treasury, appealing for subscriptions from the public for these loans, contains statements which have an important bearing on the subject.

It was stated that loans were essential to America's protection, not alone in a military way, *but for her economic protection and welfare.* It was further stated that America was producing more goods than were needed for her own use, and that her economic protection and welfare demanded that she should sell much of her production to her Allies. In other words, the credits enabled America to get rid of her surplus production to the Allies at high prices and big profits, and to keep her workpeople in employment. Most significant of all was the admission in this official bulletin that the loans were made to the Allies to enable them to do the fighting which otherwise the American army would have to do at

much expense, not only of men, but of money—money which would never be returned to America, and lives that never could be restored.

These admissions fully justify the conclusion that the loans made to the Allies to fight America's battle should be regarded as her contribution to the war in lieu of the money she would have had to spend and the lives she would have had to sacrifice but for her unpreparedness to put men into the field earlier. The loans made by America did not obviate the need for Britain's continuing largely to finance her European Allies. After the entry of America, Great Britain lent $4,176,000,000, and borrowed roughly the same amount from the United States—namely, $4,498,000,000. These figures prove conclusively that if Britain had not continued to finance her Allies she would have had no need to borrow from America. Therefore, in a real sense, the British debt to America "was incurred not for herself but for her Allies."

From the outbreak of war to the entry of America, the United States was the great market for the supply of munitions, food, and other necessaries for war. Up to 1917, Great Britain borrowed from her nationals a sum of £800,000,000 to pay for goods supplied by America. She did this to a great extent by surrendering the private investments of British investors in America. The effects of this transaction are still being felt by Great Britain in the adverse balance of trade.

The war came at a time when the United States was in sore need of a trade revival. For twelve months before the outbreak of war that country had been suffering from a very severe industrial depression. The commercial outlook in that country was of the blackest description. The number of business failures at that time was the largest recorded in her history. The war came, and in an instant all was changed. Blank depression gave place to unbounded prosperity. The madness of Europe brought industrial salvation to the United States. The

demand for everything she could produce was tremendous. Prices rose sky-high, and profits passed beyond the dreams of avarice. For the three years before she entered the war America was surfeited with wealth made out of the bloody sacrifices on the battlefields of Europe.

During the five trade years before the war, the United States exported to Europe goods to the value of $6,751,-498,000. During the five years of the war her exports to Europe rose to the value of $19,494,779,000—an increase of 200 per cent. These figures are the more remarkable when it is remembered that during the war America's exports to the countries of middle Europe practically ceased. In sending these goods to Europe, both before and after America's entry into the war, the American exporter and manufacturer took no risks. He trusted in God to give the victory to the Allies, but he trusted in collateral to secure the payment for munitions to secure that victory. When America became a partner in the war, an arrangement was made with England and France under which the War Industries Board supervised the purchases of the Allies in the United States. But there was no control of prices. Profiteering in war time became a monstrous scandal in Great Britain, in spite of anti-profiteering laws and boards for price control. It requires little imagination to conceive what happened in the United States in this respect before America's entry. But the rise in the value of exports tells that story. The sums loaned by America from 1917 to help the Allies to fight her battle were but a part of the profits she had made out of the Allies before her entry into the war.

The relative sacrifices in life and treasure, and the relative capacities of the allied and associated powers, must be considered in connection with the question of interallied debts. And the point must be borne in mind during this consideration that America entered the war "for her own economic protection and welfare." If her interest in the defeat of Germany was equal to that of her Allies she was morally bound to make an equal con-

tribution to the effort to attain that result. But no such proportionate contribution is asked from her. No sacrifice she can make now in canceling the allied debts can compensate her Allies for the loss of the millions of men whose bodies lie buried on the European battlefields. The New York correspondent of a London financial journal, writing on the debate on interallied debts which I raised in the House of Commons in March last, said that great indignation had been aroused in official circles in Washington by my insinuation that the United States ought to have borne the entire cost of the war after her entry therein, on the theory that she had been delinquent in fulfilling her moral duty from August 1914 to April 1917. I neither made nor ever imagined such an insinuation. After America's entry, Britain borrowed over £3,000,000,000 from her nationals to finance the war, for which she is paying 5 per cent interest, in addition to raising over £1,000,000,000 a year by taxation. We do not ask either America or anyone else to shoulder a penny of that burden. It is a difficult load to carry, but our self-respect will sustain us to the end.

The Bankers Trust Company of New York has furnished the following table of the relative cost of the war to the principal Allied Powers.

Relative Cost of The War to the Great Powers
(In '1913' dollars)

	Gross cost of war per capita	Gross cost of war percentage of national wealth	Average annual cost of war percentage of national income	Battle deaths percentage of population
Great Britain	524.85	34.49	36.92	1.44
France	280.20	19.36	25.59	2.31
Italy	124.59	20.59	19.18	.92
Russia	44.01	13.11	24.10	.98
United States	176.91	8.67	15.50	.05

It will be seen from this table that Great Britain made by far the largest proportionate financial contribution to

the cost of the war. She is still bearing a much heavier annual burden of taxation than any other of the late belligerents. Out of her abounding postwar prosperity, the United States is rapidly extinguishing her internal war debt; she is making enormous reductions of taxation; and the abundance of money is enabling her to convert maturing bonds at a very low rate of interest.

I prefer to take my figures from United States sources. The New York Trust Company *Index*, published in July of last year, gave a comparative table of the relative taxation burdens of the leading countries of Europe compared with the United States. The figures are based on national and local taxes in 1923-4, converted at average exchange rates. The table is adapted from the computations of the United States National Industrial Conference Board.

	Taxation per capita in dollars	National income per capita in dollars	Proportion of national income absorbed by taxation per cent
Great Britain	86.94	374.74	23.2
France	39.07	186.98	20.9
Italy	19.04	99.17	19.2
Belgium	24.83	146.06	17.0
United States	69.76	606.26	11.5

As a matter of fact, at the present time the taxation per head, and the proportion of national income absorbed by taxation, are much lower in the United States than in 1923-4; whereas in Great Britain the budget estimates for the current financial year are higher than in 1923-4. Our national wealth is not increasing. The yield of each penny of the income tax is showing a slight tendency to decline. More than half the tax revenue of Great Britain is absorbed in paying the interest and sinking fund of the war debt. In the United States, as the New York Trust Company points out, approximately three-fifths of the total taxation is for states and municipalities, whereas in Great Britain four-fifths is for national purposes.

While Great Britain's financial burden remains practically undiminished, and while her trade languishes under this load, the wealth of the United States is expanding at an enormous rate. The Federal Trade Commission recently published statistics which show that her national wealth is computed at $550,000,000,000. The wealth of Great Britain is estimated at £24,000,000,000, about one-fifth that of the United States, which is increasing yearly at the rate of $55,000,000,000—that is to say, it is doubling itself in ten years. The national income of the United States, which in 1923 was estimated at $70,000,000,000, is steadily expanding at the rate of $10,000,000,000 a year. In other words, America's national income is increasing yearly by the sum of the total amount of the debts owing to her by her European debtors. The present annual income of Great Britain is about £3,600,000,000.

A statement has been cabled to London that Mr. Mellon has informed the President that the $300,000,000 Third Liberty Loan Bonds which mature in 1928 can shortly be converted at 3¼ per cent, effecting a saving of over $30,000,000 annually. Great Britain has large blocks of debt nearing maturity, and there is little probability that these can be converted at a lower rate than 5 per cent. In about twenty years' time, I understand—but of this I cannot write definitely—the whole of America's war debt will be redeemed. At the present rate of redemption it will take one hundred and fifty years for Great Britain to pay off her internal war debt.

There are two other points in this connection which may be noted. Under the Baldwin settlement with America, Britain is to pay interest upon the American debt for fifty-two years at the rate of 3½ per cent. Even now it appears that America is able to borrow internally at a 3¼ per cent rate. If her national savings continue to grow at the present rate, the rate of interest will fall lower still, and it is no fantastic supposition that, while

Britain is paying America 3½ per cent in the future, the United States government will be able to borrow at 2½ per cent.

The second point is that America, out of the tribute she is taking from Europe, and out of her surplus savings, is placing the countries of Europe under her yoke by her loans to these countries for public and commercial purposes. Mr. Hoover was recently reported in the London press to have estimated the income of the United States from these sources at £120,000,000 a year. America's capacity to lend at cheap rates is taking away from London her former position as the center of the world's money market.

The late Mr. Bonar Law, speaking on the Baldwin settlement with America, said that the payment would place the workers of Great Britain in bondage for two generations. We are already realizing the truth of that statement. The present Chancellor of the Exchequer is at his wits' end to make his books balance. This year he has made drastic reductions of expenditure upon several of the vital services. He has raided the fund for the maintenance of the roads. He has taken money from the sick and disablement insurance funds. Education is being starved. But these economies go but a very short way toward meeting the annual payments we have to make to America on the debt settlement. In other words, this tribute to America is in part being paid at the expense of our sick and disabled and by starving the education of our children; and, for the rest, it is being paid by one and a half million hours of labor by British workmen every day. Put in another form, the payment to America is nearly equal to the whole sum we are able to give from national taxation for education; it is more than the cost of our admirable old-age pensions system; it is about one-fourth of the whole expenditure of the local authorities on the innumerable vital and social services.

There remain to be considered the terms on which Great Britain and America have respectively agreed with their war debtors for the funding of the debts. The terms of the Baldwin agreement with America have already been stated. Over a period of sixty-two years Britain is to pay America a total sum of £2,200,000,000, the principal of which at the time of the funding amounted to £920,000,000. It is said, though I cannot vouch for the accuracy of the statement, that when the Baldwin arrangement was made it was understood that the agreement would be revised if, later, America gave more favorable terms to her other debtors. Be that as it may, an added sense of grievance has been created by the more generous terms which America has given to Italy, France, and Belgium. But it is not that we begrudge the more lenient treatment America has given to these countries, for we ourselves have made far more generous concessions to them.

It was part of the policy of the Balfour note that if our debtors, who were also debtors to America, made better terms with America than America had conceded to us our agreements with them should be revised, so that *pari passu* payments would be made to us. But in our agreements with France and Italy we have waived this condition, and have accepted a far smaller proportion of the debts than America has insisted upon their paying to her.

Take first the case of Italy. The following statement summarizes the terms of the British and American settlements with Italy.

	Great Britain	United States
Original loan	£406 millions	£339 millions
Present total	£570 millions	£420 millions
Total payments to be made	£254½ millions	£495 millions

Great Britain has sacrificed 55 per cent of the capital debt, and all the interest upon it from the date of the agreement. America is to get the whole of her cap-

ital debt and £75,000,000 of interest. It is true that for the first fifteen years Italy is to pay more to Britain than to America, but after that period her payments to America will, on the average, be double those paid to Britain. There is this further important difference to be noted. Britain will have to pay 5 per cent interest upon the sum she has forgiven Italy, which means that the British taxpayers will have to find £24,000,000 a year, for two generations at least, on the lost money she lent to Italy. It represents an income tax of fivepence in the pound. America is to get all she originally lent to Italy, and £156,000,000 of interest in addition.

The comparison of the American settlement with France with the British agreement with France, not yet ratified, also brings out strikingly the more generous treatment of our debtor, and the severity of the Baldwin agreement. The indebtedness of France to America, including accrued interest, is £805,000,000. The French settlement provides for a total payment to America, spread over sixty-two years, of £1,369,000,000: that is, in addition to the funded debt, France has to pay America £564,000,000 as interest.

Under the Churchill-Caillaux agreement made last year, France agreed to pay an annuity of £12,500,000 for sixty-two years to liquidate her debt to Britain. Her total indebtedness to us on March 31 last was £647,000,000. Britain has asked France to pay £775,000,000 altogether, which is £128,000,000 in addition to the capital sum. America gets £564,000,000 as interest on the funded debt of £805,000,000; Britain gets £128,000,000 interest on a debt of £647,000,000. Britain has shouldered an annual burden of £20,000,000 by the remission of debt she has made to France. Assuming that the French agreement is ratified, Britain has made a clear gift to Italy and France of £44,000,000 a year, or in other words, has imposed an income tax on her

people of ninepence in the pound for the next two generations at least.

The war debts owed to Britain amount to over £2,000,000,000. On these debts she is paying out of our taxes over £100,000,000 a year. Assuming that we get the £4,000,000 a year from Italy and the £12,500,000 from France, and that German reparations give us £15,000,000 a year, and that we get £2,000,000 from the smaller nations on account of their debts to us, we shall be receiving £33,500,000. We shall be paying America £38,000,000 a year, and will therefore be £4,500,000 a year to the bad. In addition to this, we shall be paying that £100,000,000 a year on the internal debt borrowed to lend to our Allies.

When the funding arrangements which America has made with her European debtors fully mature she will be receiving approximately £120,000,000 a year on account of these debts. The most sanguine expectation of the yield of German reparations is not more than £50,000,000 a year, though the Dawes scheme provides for an eventual payment of £125,000,000 a year. But no authority believes that Germany will ever be able to pay a sum approaching the latter figure. Therefore, what all this amounts to is that America is going to take the whole of the German reparations and probably an equal sum in addition. This is not a bad arrangement for a country that entered the war with "No indemnities, and no material gain" emblazoned upon its banners.

The position of Britain in regard to these inter-allied debts has been made abundantly plain. She asks for no more in the aggregate from her debtors and from Germany than she has to pay to America. If America would cancel Britain's debt to her, Britain would cancel all the debts owing to her by her late Allies. She would be willing to shoulder the whole of these debts herself. Therefore, if Britain were to ask for a revision of the

American debt, no motive of gain to herself could be imputed to her.

The last point that demands consideration is whether it is to the financial and commercial advantage of the United States that she should receive these annuities from impoverished Europe. It cannot be questioned that such a drain upon Europe tends to the latter's impoverishment. It will retard her economic and commercial recovery. That cannot be to the best interests of the United States. As Mr. Mellon is reported to have said recently, "it is better to have solvent customers than to insist upon a debt settlement the terms of which would force one's customers into bankruptcy." Then there is the problem of the receipt of these payments from Europe. The payments can be made only in goods or gold or foreign investments. America wants neither goods nor gold. The debtor countries can pay only out of an export surplus.

If these exports do not go direct to America they must go to other countries, where they will compete with American goods. The method of investing these payments in Europe is hardly more feasible. That might help the European countries which needed capital, but the remittances upon these loans would raise the import problem for America, though in a lesser degree.

If we look at this interallied debt problem from the world point of view we are driven to the conclusion that the common-sense line, and the one which will be best for the real and ultimate interests of all countries, is an all-round cancellation of the debts. Britain is prepared for that. At the moment America stands in the way. But if recent dispatches from the United States, published in the English press, are reliable, the opinion there is moving in the direction of drastic revision or cancellation.

I have stated the case of Britain for revision or cancellation with frankness, but, I hope, fairly and with-

out any wish to give offense. If that were given I should deplore it. I hope and believe that the bonds which unite the two great families of a common speech and a common tradition are too strong to be sundered or impaired by frankness of discussion upon a matter which it is to the vital interests of both countries to settle on fair and generous terms.

THE INTERALLIED DEBTS[78]

The sums involved in the settlements with our former Allies are very great. The total owed to the United States come in round numbers to ten billion dollars—ten thousand millions. Almost the whole of this sum is due for advances made during the war and for the conduct of the war. Something is owed for American supplies left over in Europe after the war and sold there, and something more for relief extended after the war. Over nine-tenths, however, represents war expenditure, and it is this nine billion dollars alone to which I shall give attention. The three chief debtors are Great Britain with four billions, France with three and one-third billions, Italy with one and two-thirds billions. I state the sums in round numbers, as I shall throughout this paper.

Agreements on the terms of repayment have been made with all the debtors, big and little. With the exception of France, each of them has come to a definite settlement with the United States; and a settlement with France will doubtless come ere long. In every case the agreement is for annual payments spread over a period of sixty-two years—the period beginning with the year 1922 for Great Britain, with 1925 for Belgium, 1926 for Italy, and so on, according to the dates when the several agreements were reached. The annual payments are moderate, in some cases even small, for the first five

[78] By F. W. Taussig, Henry Lee professor of economics, Harvard University. *Atlantic Monthly.* 139: 392-9. March, 1927.

years, and then rise to a figure which is maintained practically to the end. Great Britain is the only country that pays heavy sums at the start—roughly $160,000,000 a year for the first ten years, thereafter about $180,000,000. Italy's payment begins with only $5,000,000, rises to $23,000,000 by 1936, and finally attains a maximum of $50,000,000 a year. Belgium's begins with $5,000,000 and in ten years becomes about $13,000,000. The proposed arrangement with France calls for $30,000,000 annually during the earlier years (beginning with 1926?) and for a maximum of $125,000,000 by 1943; some such figures, it is probable, will be found in the eventual settlement. Taking all the countries concerned, and including the sums proposed for France, we find that the total remittances to the United States on debt account will be, in round numbers $210,000,000 a year during the first five-year period, and $250,000,000 for the second quinquennium; then about $350,000,000 for forty-five years thereafter; and finally something more than $400,000,000 for the last decade of the long-drawn-out process. The end is to be reached in 1984 for Great Britain, and in the years immediately following for the other countries.

I remarked at the outset that the sums involved are huge—totalling no less than nine billions. But this total stands only for the book amount of the loans as made by us during the two short years of the war period. What it stands for in other terms than book account—what was really handed over by us to our Allies when the loans were made and recorded—will be indicated presently. While it behooves us to understand and remember just how things then took their course, this aspect of the case does not bear on the point to which I would at present direct the reader's attention. What is now to be noted is the obvious contrast between the huge lump sum and the comparatively small annual payments, and the perhaps less obvious fact that this series of moderate

annual payments is the one real thing coming back to the United States.

The annual payments alone have concrete importance. True, an actuary can calculate how much they represent, from his point of view, as an equivalent capital sum. According as he figures on a 3 per cent interest basis, or on one of 3½ per cent or 4 per cent, he will tell you that so many billions—more or less as the assumed percentage rate is lower or higher—may be reckoned as the "present value" of what is coming back; and he will tell you, too, how much may be regarded as repayment of principal, how much as interest on deferred payments. But such figuring has no significance for the realities of the case. It may serve to allay hostility or criticism and make a good "talking point" before congressional committees and chambers of commerce. But it is hardly more than a pretty mathematical game—attractive to the mathematically-minded, impressive and puzzling to those not so minded. What is really to happen, what signifies for us and for the other peoples, is the series of annual payments.

What, now, about the amount of those annual payments and their importance to us?

Consider them in their proportion to other items, to other related things. Two, three, four hundred millions make impressive sums. But what do they signify in comparison, for example, with the total income of the people of the United States? Our total national income for 1925 is supposed to amount to $90,000,000,000. This is a stupendous sum. I will not vouch for its precise accuracy. The total of our income may be something more, something less. My statistical friends believe the figure to be within 10 per cent of the truth; and for the present purpose that degree of accuracy is all that is needed. Compare with this total the $200,000,000 odd which we are to receive from the Europeans in the next year or two. They come to about ¼ of 1 per cent

of our national income. It is as if, having $100 to receive, we were to get 25 cents in addition—a negligible supplement. No doubt the payments are to increase, and in a few years will be doubled. But our national income will also increase; and, at anything like the rate of advance we have had in the last five years, that too will be doubled in ten years or so. As elements in our total annual resources, the payments will always be trivial. On the other hand, they will be no small items for the repaying countries, their national incomes being so much below ours in money values—only half as much per head for the more prosperous of them, hardly one-quarter as much for the less prosperous. And this discrepancy will become greater as time goes on. The growing remittances will become more and more onerous for them, since their national incomes, even though they may not stand still, cannot grow at the phenomenal rate which is ours and seems likely to remain ours.

Look at it in another way. These sums will go into the Federal Treasury, and will be entered in the government's budget. They may be directed either to lowering taxes or to reducing our national debt. The revenue of the Federal government now amounts, in round numbers, to $4,000,000,000 a year. The debt receipts amount for the present to $200,000,000 more or less—say 5 per cent of the government revenue, possibly 6. It happens that for the last fiscal year the government came out, quite unexpectedly, with a surplus substantially larger—some $300,000,000; and we are at odds with each other about its disposition. Nor does it matter much what we do with it. As regards reduction of our national debt, we are repeating the course of events which followed the Civil War of 1861-65. Then, as now, we began to pay off a great debt with speed and with ease; and now, as then, we are in a fair way to get rid of it in a decade or two. This unexampled procedure—no

other country has ever handled a public debt in this way—is due in but small degree, for either period, to surpassing financial leadership. It is the result of the growth of this industrial giant of ours; of an abounding and increasing prosperity, which gives us in many a way occasion to pause, to reflect, to consider what we shall do with our abundance of material things.

Consider, finally, what the repayments amount to in their possible effects on our foreign trade. What kind of effect they will have I shall presently indicate; here my question is, how great an effect? It happens that our imports—it is these which will be primarily affected—at present amount to about the same sum as our federal revenue—roughly $4,000,000,000 a year. The debt repayments will again be 5 or 6 per cent of this sum total. Now the imports fluctuate from year to year by many hundreds of millions—by much more than 5 per cent a year. These fluctuations trouble us not at all. The business world hardly knows that they take place, and the public at large knows not and cares not, nor has it any reason for knowing or caring.

To sum up, the impressiveness of the figures when stated in suppositious capital sums is misleading. What actually comes to us—namely, the annual payment—is little as compared with the national income, with the federal government revenue, with the country's foreign trade. If we get these receipts we shall not be made rich. If we do not get them we shall not be ruined.

So much as to the magnitude and proportions of the facts of the case. I turn now to their meaning for us. Two questions arise. So far as all this payment goes, be it great or small, is it to our advantage or is it not? The second question is different: not whether the payment is to our advantage, but whether it is right that we should receive it. There is an economic question, and behind that there is a question of justice. I say justice. Perhaps it would be better to say chivalry, or

even long-run expediency—at all events something other than the bare matter of measurable gain or loss.

As regards the immediate economic aspects of the case, the underlying fact is that payment must come to us in goods. Of course the debt settlements are in terms of dollars, and we have to reckon in dollars. But it is the merest commonplace in economics that payment cannot come in cash, or that but the merest fraction can so come. If it did come to us in cash—that is, in gold—we should be embarrassed to know what to do with the money. Our federal banking system already has more gold in its reserve than it knows how to use with advantage. But, to repeat, it is through goods, not in money, that we must expect the remittances to be made. Our imports will become larger or will be made larger than they otherwise would have been. The increase will not be great relatively to the total volume of our foreign trade, as was just explained. But somewhat larger the imports will be. More goods will come in from abroad, and this is the way in which we shall really be paid.

No doubt the inflow of the additional imports of goods will be staved off for a time by loans, such as we have been making to foreigners in these postwar years. We used to be borrowers from Europe; now we are lenders to all the world. Like so many other things, our international credit position is being turned topsy-turvy. These lending operations of ours are not likely to cease, though they may not continue indefinitely at the pace of recent years. They bring possibilities of postponements of the rise in imports, of temporary overlappings and adjustments, by which our foreign trade for the next few years will be affected in ways not easy of prediction. These minutiae are interesting and sometimes perplexing to the economist and the financier, but do not affect the outstanding fact: it is in goods that we must take payment.

The goods, however, will not necessarily come in from the countries which have to make the payments. They will probably come by indirect ways from other countries. English people will not sell us many English goods direct. They will send their goods to other countries—the Orient, South America, Australia. We shall then buy goods in those countries, and shall be able to pay for their goods by utilizing the debt remittances to our government. This sort of indirect trade is going on all the time. Our imports now consist chiefly of raw materials and tropical commodities, most of which come in free of duty. It is imports of this very class that are likely to be swelled in consequence of the debt payments. We shall get more tea, coffee, raw silk, wool, jute, rubber, and the like.

No doubt the whole of the additional imports ascribable to the debt payments will not be accounted for in this way. Some share will come to us in the form of manufactured goods sent directly from England, France, and Germany. Certain lines of American industry will experience additional competition from their European rivals. Consequences of this sort, even though less in quantitative importance than is commonly supposed, must be faced as a probable result of the debt payments. So far as this direct inflow of goods from Europe takes place, it raises the question whether added competition from abroad is on the whole a good thing for a country or a bad thing. The answer to that question depends upon one's entire attitude with regard to foreign trade and the maintenance of a system of very high protection—a much larger topic than I can go into on this occasion. I will merely remark that in my judgment the consequences do not all run one way. In the main they will not be harmful to us, in some part they will be. But in any event they will not be of great moment.

I may remark, in passing, that the free traders and tariff reformers are disposed to exaggerate the im-

portance of this particular matter for the problems which interest them. They urge that, since payment must be made in goods, we must make it possible to receive the goods; whereas, by imposing tariff barriers, we make it impossible to receive them. A necessary corollary of the debt payments, in their view, is a lowering of our customs duties. Not quite so, for the reason just adduced. True, our high duties do make it somewhat harder to send in the goods directly from the remitting countries, and in so far impede the process of payment. I am entirely in sympathy with the movement for cutting down our high protective duties; and am willing to admit, too, that there is an obvious and indeed amusing inconsistency in our policies. We cannot insist on the debt payments and at the same time keep out European manufacturers from our own markets and also boost our own exports of similar manufacturers to their outlying markets. But it is all a question of more or less, and rather less than more. Some special kinds of goods have always been coming in from European countries. Probably more of these quasi-specialties will be sent us. The main inflow will be of the so-called non-competitive articles—tropical products, raw materials, and the like. The staunch protectionists can hold to their policy, if they will, and yet not be seriously troubled by the consequences of the debt payments.

There is, however, another aspect of the process of payment in goods which must make us pause. We have to remember that from this point of view there is a contrast with the past—a resemblance in one way, but a disquieting contrast in another. When we made the loans to the Allies in 1917-19, we handed over to them not cash, but goods. This is the resemblance: our loans were made in goods, just as the repayments are to be made in goods. But now the contrast. We charged high prices for the goods that we sent out in 1917-19.

"Charged": this is a misleading term. No one deliberately charged high. But the plain fact is that the circumstances of those years were such that the goods which the Allies got from us—the only things they received—were debited to them at very high rates. While we put vast dollar funds at their disposal, they got few goods per dollar. Now the price situation is quite otherwise, and it will be otherwise, so far as we can foresee, for many years to come. Prices have gone down to two-thirds of what they were when the loans were made. Our debtors, to make up the same dollar values, must send us 50 per cent more of goods than they received—one-half as much again. We are profiting as a people by the revulsion in prices since the great upheaval; not deliberately or intentionally, but profiting we are.

So much about the bare economic aspects on which I feel qualified to speak with some assurance. I turn now to the other aspect of the problem, on which my qualifications cannot be those of the specialist. What can be said of the equities of the case?

First note that we—that is, the constituted authorities—have modified our position within the last few years.

When Congress in 1922 passed the first act for regulating the debt payments, it was provided that the commission then established for arranging the settlements should accept nothing but payment in full. The principle on which Congress legislated was that a debt is a debt, and that a debt should be paid. The letter of the contract should prevail. And this principle was virtually followed in the settlement with Great Britain. Virtually, it was not followed without some slight qualification. The total payments made by Great Britain can be figured out to be something less than the face value of the debt owed to us by Great Britain. But the deficiency is slight. To all intents and purposes it may be said that Great Britain met us on our own ground. Since the United States took the view that this was a

plain and simple debt, Great Britain, in a period of acute depression in her industries, of painful recovery from enormous losses, of sad uncertainty about the future, conformed to the letter of the law as laid down by the United States. No complaint, no arguing; if you will have it so, let it be so.

When it comes to the other countries, however, our procedure has been different. With Belgium, Italy, France, not to mention the smaller countries, we have dealt in quite another spirit. With them we have regarded what is called their capacity to pay. Ordinarily, when one deals with a debtor and proceeds on the basis of the letter of the law, one does not regard his capacity to pay. Or it is regarded only if he is bankrupt and the creditor is in the position of simply taking what is left of his assets. We have not acted in this way with Belgium, Italy, France. We acceded to a compromise —even proposed it. With all these countries the compromise means, whatever be the actuarial method of computation, that we are accepting very much less than the amount of our loans. Congress has ratified the compromises (all except that with France, still to be ratified by France herself). Thereby it would seem that Congress has come to a state of mind not the same as that which prevailed when the original debt settlement act of 1922 was passed.

This acceptance of something other than the letter of the law would seem to carry with it an admission that, after all, the principles of settlement are not easy to define. Shall we treat these obligations as plain ordinary debts, to be collected in the same way and in the same spirit as debts between man and man, and have no regard for past community of spirit, for good relations in the future, for things other than the bare face of the contract? We are often told that it is healthy for people to pay their debts; nay, it is to their own advantage, if they wish to keep their credit good and perhaps borrow again

another time. So it is, no doubt, in the ordinary transactions of trade. It is so, too, as regards those international loans which are extended by individuals (banking houses and their customers) to foreign governments. Otherwise the fountains of business credit would be dried up. But were our loans to the Allies of this character? Were we moved by any such considerations as apply to ordinary loans? And were the Allies, on their part? Let us not forget the past, the very recent past. Surely we made these loans not as investors, in the way of a bargaining contract, but as peoples to peoples for mutual aid. We thought it our duty, and our interest also, to stand with the Allies in the dreadful struggle. For the first year of our participation the only effective thing we could do was to put at their disposal our supplies of goods. The form of loan was chosen because it was the easiest and quickest way to get the thing done. Doubtless in the rush and pressure of the crisis no deliberate choice was made. It was all a matter of getting things done. And so it was with the Allies. Loans if you will; anything that brings instant help.

Consider the loans for a moment, as it has been urged they should be considered, from the point of view of the debtor's own ultimate interest. Let him repay for his own good, we are told; if he repays now he will be able to borrow another time. Quite true as regards ordinary business operations. But in the stress and ferment of war is any such reflection or reckoning ever made by either party? Does anyone suppose that, if another such conflict should come (God forbid!) and if we were again compelled to align ourselves, we should hesitate to do anything and everything that might help the cause we deemed right; that we should debate whether to lend or not lend, to give or not give, to go ahead or to dicker, because once upon a time, in the forgotten past, another loan had been made, also in a great war, and had not been treated either by us or by our associates as a

business contract? It is in no such spirit as this that individuals or peoples deal with each other when war comes on.

Reasoning and cold-blooded calculation, however, help little on the aspect of the case we are now considering—the equities. We get scant aid from any analysis of the bases of contractual obligations, from historical precedent, from economic lessons. The matter reaches into higher realms. However we deceive ourselves by focusing attention on the measurable gain or loss, whether for ourselves or for our Allies, we cannot but be moved at bottom by conscience—by sentiment if you please. My own conscience is not easy. My sense of self-respect as an American is not happy. I find myself admiring the attitude of Great Britain and not entirely admiring our own attitude. For many, many dreadful months we were unable to aid our Allies with anything except money and loans. We did this cheerfully. Surely we then had no thought of being engaged in purely commercial transactions. We gloried in being a rich and powerful country, and thereby in a position to aid our almost exhausted Allies and friends. Has that spirit entirely disappeared?

Let it not be forgotten that Great Britain also made great loans to her Allies—our Allies; and that she is dealing with her debtors in quite a different way from ours. She lent almost identically as much to France as we did —something over $3,000,000,000. She lent much more to Italy than we did: $3,000,000,000, as against half as much by ourselves. She has come to settlements with them similar in plan to ours (payments spread over a long series of years). But there is a marked difference in degree, and a difference even more marked in spirit. She too is willing to accept annual installments; but the sums are very much less than those we call for. They are not half so much from France, barely a quarter as much from Italy. And—what is more on my

conscience—she agrees to reduce these payments exactly in the proportion in which her own payments to us may be reduced. If we cut down, she will also cut down to the same extent. Early in the postwar negotiations she announced that she would proceed on this basis; and thus she is still ready to proceed.

One's attitude on the whole question is necessarily influenced by one's hopes or fears, confidence or despair, about the postwar situation. Did we really do well to enter on the war? Are we quite disillusioned about the consequences? Does the future still seem as dark and uncertain as it did three or four years ago? He who believes it was all in vain, that the world was bad and still is as bad as before, will acquiesce in turning our backs on the old Allies. He will be disposed to deal with them at arm's length, collect what can be collected, disregard their plight, disregard, too, any feelings they may have about us. But he who believes that good is stirring, and that the world may be starting on better ways; that something is due from us to improve on the bad past—he will ask himself how this problem can be dealt with so as to promote the good that stirs and foster between nations a spirit of mutual help.

I have no proposal to submit. The time is not ripe for conferences, negotiations, revisions. We in the United States have not rid ourselves of the lamentable partisan divisions and entanglements which followed the war. At the present juncture, too, political and economic conditions in the agricultural regions of the mid-west are not conducive to a re-reckoning. Things will run their present course for a while, and the debt remittances will continue to come to us. None the less we may pause and reflect, give time for the internal dissensions of the moment to die out, bethink ourselves soberly what we may wish to do in the end.

Sooner or later we shall have occasion to reconsider. The time may come shortly. The factor in the case

which is most likely to lead to reconsideration is the progress of the German reparations payments. These payments, under the Dawes plan, are rapidly approaching their maximum. By 1929 they will reach the highest sum which Germany is called upon to produce—namely, the sum of $625,000,000 a year. Without entering into any detailed discussion of the reparations program, or of the difficulties which it may encounter, we must face the possibility—nay, the probability—that when the German obligations thus reach a head, and when the actual transfer of the large sums to the Allies needs to be contrived year after year, a new stage will be entered on. A revision of the whole international situation will then be on the cards. Hazardous though it is to make prediction, I believe that before many years—perhaps within a few—some arrangement for a single great lump-sum payment by Germany will be brought forward. The whole of this series of long-drawn-out international remittances, stretching over half a century and more, between ourselves and the Allies, between the Allies, and between Germany and the Allies, will then present itself in a new light.

For our part, are we resolved to insist unrelentingly on what the settlements now prescribe for the long period of sixty-two years? The war soon will cease to mean anything for our daily doings. The material sacrifices to which it led have been almost forgotten; within a decade or so the last remembrance of them, in the way of taxes and budget burdens, will have disappeared. To the younger generation it is already a matter of the dim past.

Can we think it probable that these long-strung payments will continue to have any meaning to the peoples involved, other than that they are a burden to one side and a dubious benefit to the other? Later generations will regard the question of fitness and justice from their own point of view. Will our people then believe the

debt payments to be just? We are rich, and we are rapidly getting richer. Prosperous beyond anything hitherto imagined in the history of mankind, we now are preparing to receive, through half a century and more, payments from peoples much less prosperous. These annual streams of goods, legacies of a great historic disaster, will then be related to no services of ours, to no discernible obligations of theirs. They may be reminders of a high past, but may also be evidence of an unworthy present.

If the rest of the world wishes to sweep away the wreckage of the past, clear the decks, and start fresh and unencumbered, shall we remain aloof? I can feel no elevation of spirit, no pride in the position we are now taking. When the day for a new alignment comes, how shall America take her stand?

THE EFFECT ON AMERICAN WORKERS OF COLLECTING ALLIED DEBTS [79]

The inter-ally debt problem is a difficult one. It involves three fundamental considerations: first, the question of abstract justice; second, the ability of the borrower to pay; and, third, the effect had upon our domestic economy under existing circumstances of receiving huge sums of money or commodity payments from abroad over a relatively short period of time.

With respect to the first of these there is little ground for discussion, except insofar as the question of equity is involved in abstract justice. First of all, we find that the value of the dollar was much smaller in terms of commodity at the time the debt was contracted than it is today. Second, at the time these debts were contracted anything that could stop the breach in the dykes was

[79] From the article by Matthew Woll, president, International Photo Engravers' Union; vice-president, American Federation of Labor. *Annals of the American Academy of Political and Social Science.* 126: 42-5. July, 1926.

hastily snatched at. With the flood breaking through and the country in danger, no one considered these loans as ordinary commercial transactions and no one dickered about the "sanctity of contracts." The cry was "Win the war," no matter what the cost. Third, the service of these loans to assist in holding the battle front of Europe, until our heroic army could be felt effectively, made possible, beyond shadow of a doubt, the ending of the war in the fall of 1918. And what is more, these loans were in the main in the form of credit and used to employ American capital and American labor and thus every profit derived therefrom came to America.

On the question of the ability of the debtor to pay, there is always a question of major import. In ordinary commercial relations this is always taken into account and debts are adjusted on the basis of ability to pay, regardless of the amount owed.

International debts must be settled and they must be settled in such a rational way as to promote the prosperity of debtor, creditor and all nations. The future prosperity of the debtor nation requires that enough should be paid to sustain its financial honor and its credit for future commercial borrowings, but that no such excessive sums should be paid as would injure its productive power, its accumulation of capital and its future "ability to pay" its international debts.

There is another limitation. The world is in a large measure an economic unit, and it is to the interest of all nations that all should prosper. Nothing can be more damaging than that huge and crushing payments should be pressed out of the less prosperous and most heavily taxed of the nations by the most prosperous. Ultimately, America would lose as much as any other country by the economic oppression of the nations of the European continent.

So far as the first two considerations are concerned, our attitude should not be difficult to determine. Prac-

tical experience in business relationships furnishes adequate guidance with respect to the matter of equity and as to how the debt should be handled in relation to the debtor's ability to pay. Even granting a definite agreement on these two phases of the problems, there is yet a third major consideration that cannot be ignored. Consideration must be given to the effect of huge money payments from Europe, our principal foreign trade customer. We must realize that the inter-ally debt was contracted by an exchange, of a promise to pay, for goods and services of various kinds which were delivered in Europe. Because the goods which we sent were principally used to conduct the war, their receipt had only a wholesome effect upon European economy at the time. In the repayment of this debt this process must be reversed. Europe can repay us only by sending to us, either directly or indirectly, an equivalent volume of goods. The goods which we must receive will of necessity be of a different type from the war materials we sent Europe which were immediately consumed and thus had practically no effect upon ordinary commercial relationships. Consequently, in considering the question of repayment we must take into account the form and the manner in which payment is to be made and how this is likely to affect business and financial conditions in this country and in Europe, our principal foreign trade customer.

It goes without saying that the adjustment of reparations and international debts will require large movements of goods internationally. Inasmuch as the United States is largely the ultimate creditor and Germany the ultimate debtor, one would normally expect that the payment of these balances would require large movements of goods out of Germany and into the United States. That goods must move out of Germany into the international market by the fullest capacity of Germany to produce, is certain. That German goods or the goods of other Europeans will move into the United States is un-

likely, certainly in so far as they are competitive with our own. If the present tariff is maintained that will largely be the barrier to prevent their importation here.

That German production must move out of Germany and compete with us in the international field is certain, because of the reparation obligations. That we would diminish the tendency of foreign goods to come into this market by a diminution of our foreign debts is likewise true. Thus to that extent we would insure the position of industry and our workers here.

The goods moving out of Germany into the international market must, for the most part, be manufactured goods and so involve a large labor content. If they do not come into the United States, they will have to increasingly absorb the foreign market, and to the extent to which they do, they will tend to prevent exports from the United States of manufactured goods. The only hope of our being able to compete in the foreign markets with these debt payment goods of other nationals is for us to put back of our large scale production here more and more investment in automatic machines, and particularly power back of the individual worker. We have such a large capital supply that we can afford to invest in plant account of this character much larger sums than any other country, and so we might in this way retain a competitive position in the foreign market, notwithstanding the enforced flow of goods from the cheaper labor markets of Europe into the international pool with which to pay international debts.

As I see it, we may ultimately in this country get into a position when the protective tariff which we now have will be battered from without by goods seeking to come here to pay as our foreign debts, and at the same time may be battered from within by a large agricultural population which will no longer be willing to sell its goods in the free markets of the world and

purchase supplies at a much higher level and in a protected market when vastly cheaper goods are knocking at our doors. Such an assault is already under way. The farmers of America are aroused as never before because of this very situation. And if this assault on the tariff should be successful, it would tend to drive down our worker's standards of living to those which exist abroad. It would also tend to break down our existing restraints of immigration.

Finally, it seems to me that our industries and the standards of living of America's wage earners are best conserved by a modification of the existing international debts in keeping with the foregoing.

Everybody recognizes that the funding agreements being entered into cannot be considered final. They are inevitably subject to change whenever it is demonstrated that they are injuring our own economic life, either directly or indirectly, through their effects upon European economic conditions. But the possibility of such readjustment requires that there be something to adjust. The debt funding agreements are a modification or part cancellation of these international debts and at best are experimental in their very nature. In our present state of economic knowledge no one can be certain of their ultimate effects. They are, however, a step in the right direction and are fully justified for that reason.

Thus we are going through the motions of collecting these debts. Europe is going to pay with one hand and borrow back with the other, and go on using the capital just the same. It will be so because there is no way of preventing capital from going where it is most needed, and it is better for us that it shall be so, instead of actually receiving payment in goods that would interrupt our own industries. I think it is a safe guess that fifty years from now the United States will have more loans and investments abroad than it has today, including these debts, and this will mean that we will

not have received actual payment of these debts. They will only have changed their forms.

Personally, I doubt if such "collection" as this, which really shifts the loans to the public market, is worth the controversy, misunderstanding and ill feeling which our insistence provokes in the debtor countries.

As I see it, the present settlements can be regarded only as tentative arrangements which keep the debts alive. The real issue is postponed, and perhaps this is as well as can be done in the present state of public opinion. Government officials, including members of Congress, are unwilling to take the responsibility of wholesale cancellation, and on the other hand it is obvious that such countries as France and Italy are in no position to pay anything at present. It is difficult, however, to say what changes may occur in twenty-five or forty years.

CHRONOLOGY

CHRONOLOGY

1917, April	24	First Liberty Loan Act.
Sept.	24	Second Liberty Loan Act.
1918, Jan.	1	Soviet decree repudiating foreign debts.
April	4	Third Liberty Loan Act.
July	9	Fourth Liberty Loan Act.
1919, Jan.	15	Letter of Édouard de Billy, French Deputy High Commissioner, to Secretary Glass, proposing that the question of the debts of the Allies be settled at a conference to be held in Paris during the peace negotiations. (The first formal official proposal for joint adjustment of allied debts).
Jan.	29	Reply of Glass to de Billy.
June	28	Treaty of Versailles was signed. A clause in this gave the Reparation Commission until May 1, 1921, in which to fix the total amount of German reparations.
Sept.	26	The United States Treasury announced that it had informed the treasuries of European governments to which it had made advances, that it was prepared to discuss the funding of these demand notes.
Nov.	8	Letter of Basil P. Blackett, British financial representative in Paris, to Assistant Secretary Rathbone. (The first formal British proposal in regard to adjustment of the allied debts).
Nov.	18	Reply of Rathbone to Blackett.

Dec. 18 Letter of Secretary Glass to Joseph W. Fordney, chairman of the Committee on Ways and Means of the House of Representatives, in regard to deferring the collection of interest on the allied debts, for two or three years.

1920, July 16 Spa Protocol was signed. An agreement between the Allies and the Central Powers in regard to the financial clauses of the Peace Treaties.

Aug. 5 Letter of Lloyd George, Prime Minister of England, to President Wilson in regard to cancellation or adjustment of allied debts.

Nov. 3 Reply of President Wilson to Lloyd George.

1921, May 5 London schedule of payments, fixing the amount of German reparations and the manner of payment, was initialed. Accepted by Germany, May 11, 1921.

1922, Feb. 9 Act of Congress creating the World War Foreign Debt Commission. Approved February 9, 1922.

April 6 Joint Resolution of Congress extending the time of payment of principal and interest of the Austrian obligation held by the United States, until June 1, 1943. Approved April 6, 1922.

July The French government sent the Parmentier Mission to discuss the question of the French debt, and the possibility of postponing the negotiation of a settlement.

1922, Aug. 1 The Balfour note was dispatched to the countries debtor to Britain, stating the willingness of the government to ask

them only so much of their indebtedness as would meet its payments to the United States.

Aug. 24 Secretary Mellon's press statement answering the Balfour note was issued.

Sept. 1 The French government reply to the Balfour note was dispatched.

Dec. 29 Address of Secretary of State Hughes at New Haven, on "Economic Conditions in Europe," proposing the appointment of a committee of financial experts to work out a solution of the German reparation problem, a suggestion adopted later in the appointment of the Dawes Commission.

1923, Jan. 1 The Ruhr was occupied by the French and Belgian troops, as a result of the Reparation Commission declaring Germany in default on Reparation payments.

Jan. 8 Negotiations were opened in Washington for the funding of the British debt by Stanley Baldwin, Chancellor of the Exchequer, and Montague Norman, Governor of the Bank of England.

Feb. 28 Amendment to the Debt Commission Act. Approved February 28, 1923.

May 1 United States - Finland. Debt Funding Agreement. Signed, May 1, 1923.
Approved by the United States, March 12, 1924.

June 19 United States - Great Britain. Debt Funding agreement. Signed for Great Britain, June 18, 1923.
Signed for the United States, June 19, 1923.

Approved by the United States, February 28, 1923.
Ratification by the British Parliament is not necessary.

Nov. 30 The Reparation Commission adopted a resolution to create two commissions of experts to deal with the question of German reparations.

Dec. 27 The Reparation Commission announced the constitution of the Dawes Commission.

1924, April 9 Report of the Dawes Commission presented to the Reparation Commission.

April 25 United States-Hungary. Debt funding agreement. Signed April 25, 1924.
Approved by the Reparation Commission, May 20, 1924.
Approved by the United States, May 23, 1924.

1924, June 22 Prime Minister MacDonald and Premier Herriot reached a substantial agreement regarding the main points of foreign policy.

July 16 The London Reparation Conference opened. The final protocol was signed, August 6, 1924.

Aug. 8 Great Britain-Union of Soviet Socialist Republics. Treaty regarding debt settlements. Initialed August 8, 1924, but never ratified by the British government.

Sept. 1 The Dawes plan began to function.

Sept. 1 The Ruhr was evacuated.

Dec. 27 The French Minister of Finance, M. Clémentel, presented his "Inventaire de la situation financière de la

France," in which war debts were omitted under liabilities of the government and a memorandum attached with a plea for their reduction.

1925, Jan. 14 Agreement of the Allies and the United States regarding the distribution of the Dawes annuities signed.

April 28 Great Britain returned to the gold standard.

June 1 Italy-Rumania. Debt agreement signed. It modified somewhat the preliminary agreement of April 14, 1924.

Aug. 18 United States - Belgium. Debt funding agreement. Signed, August 18, 1925.
Approved by Belgium, March 2, 1926.
Approved by the United States, April 30, 1926.

Sept. 24 United States - Latvia. Debt funding agreement. Signed, September 24, 1925.
Approved by Latvia, March 26, 1926.
Approved by the United States, April 30, 1926.

Sept. 24 United States-France. Opening of the Caillaux-Mellon debt negotiations in Washington. Debt negotiations failed October 1, 1925.

Oct. 13 United States - Czechoslovakia. Debt funding agreement. Signed. October 13, 1925.
Approved by the United States, May 3. 1926.

Oct. 19 Great Britain - Rumania. Debt settlement signed.

Oct. 28 United States-Estonia. Debt funding agreement. Signed, October 28, 1925.
Approved by Estonia, March 26, 1926.
Approved by the United States, April 30, 1926.

Nov. 14 United States-Italy. Debt funding agreement. Signed November 14, 1925.
Approved by Italy, February 14, 1926.
Approved by the United States, April 28, 1926.

Dec. 1 The Locarno Treaties were signed in London. They were initialed at Locarno, October 16, 1925.

Dec. 5 United States-Rumania. Debt funding agreement. Signed, December 4, 1925.
Approved by Rumania, March 26, 1926.
Approved by the United States, May 3, 1926.

1926, Jan. 27 Great Britain-Italy. Debt agreement signed.

April 29 United States-France. Debt funding agreement, negotiated by Ambassador Bérenger.
Signed, April 29, 1926. Unratified.

May 3 United States-Yugoslavia. Debt funding agreement. Signed, May 3, 1926.
Approved by Yugoslavia, June 18, 1926.

June 30 Letter of Mr. Frederick W. Peabody to President Coolidge, protesting against the policy of the United States in funding the allied debts.

July 12 Great Britain-France. Debt agreement signed. Unratified.

July 14 Reply of Secretary Mellon to Mr. Peabody's letter to the President.

July 19 Churchill, Chancellor of the Exchequer, criticized Secretary Mellon's statement on allied debts in the House of Commons.

July 20 The United States Treasury issued a statement of the British account with the United States in connection with war loans.

July 22 British Treasury statement issued in answer to Secretary Mellon's statement.

Aug. 9 Ex-Premier Clemenceau published debt appeal to President Coolidge.

Aug. 30 Newton D. Baker, ex-Secretary of War, issued an appeal for the cancellation of the allied debts to the United States.

Dec. 19 Columbia University Faculty of Political Science issued a statement on allied debts.

Dec. 22 Reply of Senator Smoot to the Columbia statement, made in the United States Senate.

Dec. 31 Great Britain-Portugal. Debt agreement signed.

1927, Feb. 17 Great Britain-France. Provisional debt agreement. Premier Poincaré announced that £6,000,000 will be paid to Great Britain on the French war debt for the year 1927-28. (It was understood that an equal amount was to be paid the United States).

March 2 United States - France. Provisional debt agreement reached by Premier Poincaré and Ambassador Herrick.

March 10 Princeton University Faculty issued a statement regarding war debts.

March 15 Letter of Secretary Mellon to President Hibben criticizing the Princeton and Columbia statements.

March 18 President Hibben issued a statement in reply to Secretary Mellon.

March 23 Reply of Professor E. R. A. Seligman to Secretary Mellon's letter to President Hibben.

April 9 Great Britain-Greece. Debt agreement signed.

May 2 Note from the British government to the Secretary of State, commenting on Secretary Mellon's second letter to President Hibben.

May 4 American Reply to the British note enclosing a statement of Secretary Mellon.

July 6 Liberia paid its entire war debt to the United States.

Aug. 9 Great Britain-Yugoslavia. Debt agreement signed.

Dec. 5 United States - Greece. Debt funding agreement signed.

Dec. 7 France - Greece. War debt agreement signed.

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